Unitronics (1989)(R"G) LTD.

2008 – Periodic and Annual Report

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This report contains forward-looking information within the meaning of Section 32A of the Israeli Securities Law, 5728-1968, including forecasts, estimations, assessments, expectations or other information pertaining to future events or issues, the occurrence 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 herein. 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 estimates as of such date, the actual occurrences and/or results may vary substantially from those presented in the report or implied therefrom as projected or anticipated, since their occurrence is subject, *inter alia*, to uncertainties and other factors beyond the Company's control as detailed in this report below.

CHAPTER A - DESCRIPTION OF THE COMPANY'S BUSINESS (Reg. 8A)

Part I - Description of the general development of the Company's business

1.1 Company activity and description of its business development

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

The Company was incorporated in August 1989 as a private company pursuant to the Israeli Companies Ordinance (New Version), 5743-1983 (hereinafter: the **"Companies Ordinance"**), and since then has been primarily engaged in the field of PLCs and in projects involving automation, computerization and integration of computerized production and/or logistics systems. In July 1999 the Company became a public company as defined in the Companies Ordinance. In September 1999 the Company first published a prospectus offering its shares to the public in Belgium, subsequent to which its shares were listed on the Euro.NM stock exchange in Belgium. In 2000, following the establishment of the EuroNext stock exchange in Belgium, trading of the Company's shares was moved to this exchange. In May 2004 the Company published a prospectus in Israel pursuant to which shares, convertible bonds (Series 1) and warrants (Series 1) of the Company were listed on the Tel Aviv Stock Exchange (hereinafter: the **"2004 Prospectus"**). In August 2006 the Company published a prospectus in Israel pursuant to which bonds (Series 2) and warrants (Series 2) of the Company were listed on the Tel Aviv Stock Exchange (hereinafter: the **"2006 Prospectus"**).

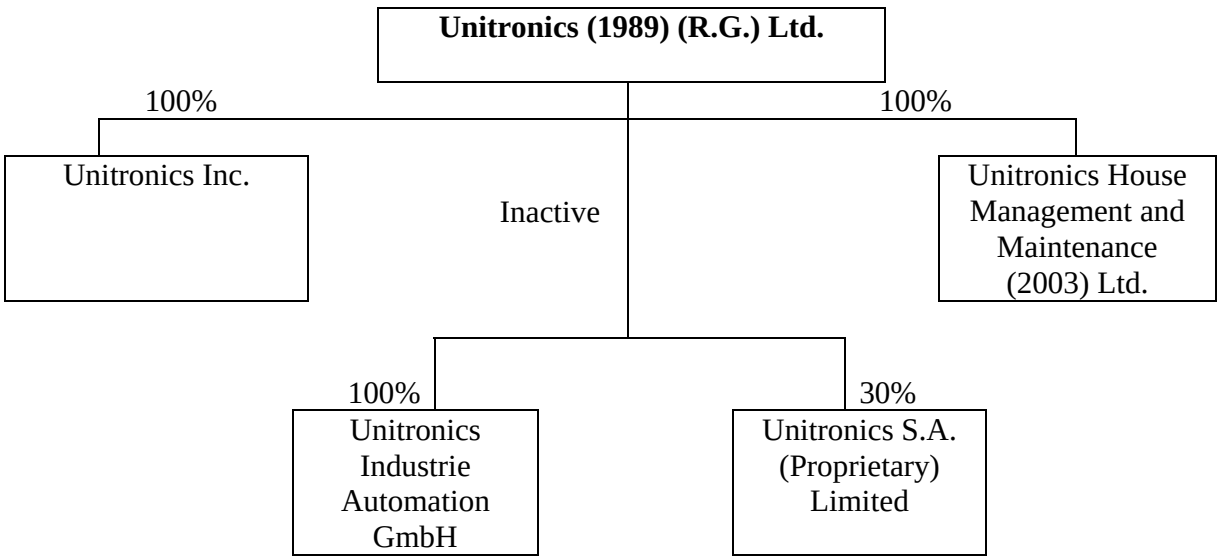
The Company operates from facilities comprising approx. 2,232 square meters in the "**Unitronics House**", an office and industry building situated in Airport City near the David Ben Gurion Airport, where the Company leases approx. 1,600 square meters from

the Israel Lands Administration since August 2000 and rents approx. 632 square meters from a controlling shareholder (approx. 196 square meters since August 2004 and an additional approx. 436 square meters since August 2005) (see section 1.12 in this report).

1.2 Subsidiaries and holding diagram

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

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



1.3 Sectors of Activity

The Company has two major sectors of activity, handled by two business departments: the Products Department and the Systems Department.

Products sector: Through the Products Department the Company engages in the design, development, manufacture, marketing, sale and support of its products, mainly certain series of PLCs of various models (nano, micro and small PLCs) that incorporate an operating panel (a keyboard and a display) as an integral part of the PLC, and connectivity (including Internet, intranet, and cellular phone communications), as well as external

expansion units for the PLCs, software for the PLCs, for management of logistics systems and for management of production floors, and additional auxiliary items.

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

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

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

1.4.1 In December 2003, the exercise price of convertible bonds allotted in January 2001 was modified, and in the framework of an agreement with the holders of these bonds, the bondholders converted a principal amount of approx. € 2,250,000 into Ordinary Shares, waiving interest or other payments with respect to the sum converted. In consequence of the aforesaid conversion, 1,902,748 Ordinary Shares were issued, representing approx. 17.5% of the Company's issued and paid up share capital following the conversion. The balance of the bond principal (in the sum of approx. € 750,000) remains payable/ convertible at revised terms, the essence of which is as follows: (a) Annual repayment at a rate of 6.63% (repayment at a rate of 115% of the principal sum, in addition to interest payments at a rate of 4% per annum up to February 2006, inclusive), and thereafter at a rate of 8.13% per annum (on the aforesaid amount); (b) Repayment in ten quarterly installments (principal + interest) starting May 2006; (c) The unpaid principal is convertible into Ordinary Shares at an exercise price of € 4.73 per share, reflecting a possible allotment of up to 158,562 Ordinary Shares (which even after allotment would not make such bondholders interested parties, based on the information available to the Company relating to their holdings in Company shares on the date of this report); (d) Listing the conversion shares for trading on the stock exchange in Belgium, which was already performed. The Company estimated that conversion of the bonds (even though at a substantially lower price) along with postponement of repayment of the remaining bonds not yet converted for 10 quarters (even though at a higher interest rate), was preferable to the cost involved in raising external capital and/or reducing Company expenditure on research, development and marketing for repayment of the original bond principal as detailed above.

On August 5, 2008, the Company defrayed the tenth and final payment in respect of principal and interest for these bonds (for details see immediate report dated August 6, 2008 concerning tenth payment of bonds (Series 5/04)). Following this payment, no bonds of this type remain in circulation.

1.4.2 In view of the relatively low prices of the shares on the Tel Aviv and Belgium stock exchanges, and as a vote of confidence in the Company and its operations, commencing August 2005 the Company, from time to time, purchases its Ordinary Shares within the

framework of trading on the stock exchange (these acquisitions were effected at prices of between NIS 3 and NIS 5.5 per share). On June 22, 2006 the Company's Board of Directors approved a further purchase of Ordinary Shares of the Company for a total sum of approx. NIS 2,000,000 on similar terms and at a price not exceeding NIS 6.50 per share. Up to December 31, 2008 the Company held a total of 664,880 Ordinary Shares purchased as stated (out of an existing 11,676,546 Ordinary Shares in the Company's issued share capital). These purchases were made for a total sum of approx. NIS 2.93 million and at prices of between NIS 1.5 and NIS 5.5 per share. As long as these shares are owned by the Company, they are "dormant shares" within the meaning of this term in the Companies Law, 5759-1999. Up to the date of this report no additional shares were purchased by the Company, and the Company holds a total of 664,880 shares purchased as stated. In addition, the Company purchased bonds from series issued to the public (for details, see sections 1.19.4 and 1.19.5 below).

1.4.3 On February 20, 2006, the Company's Audit Committee and Board of Directors approved a market making agreement of the Company with Harel Investment House Ltd. (hereinafter: "**Harel**"), pursuant to which Harel is to act as market maker for the Company's shares in accordance with the Tel-Aviv Stock Exchange Regulations and in accordance with the instructions and decisions of the Tel-Aviv Stock Exchange Directorate (for details see section 4.6 below).

1.4.4 The 2006 Prospectus offered to the public units comprising NIS 34 million par value of bonds (Series 2) and 600,000 warrants (Series 2) convertible into Ordinary Shares. These shares and securities were allotted on August 25, 2006 and were listed for trading on the Tel Aviv Stock Exchange. The net proceeds from these securities, after deduction of issuance expenses, were approx. NIS 30 million.

1.4.5 On April 12, 2007 the Company's Board of Directors approved a private allotment of non-negotiable options to a former employee of the Company who served as an external consultant and service provider to the Company. The private allotment is a "private offering which is neither material nor exceptional" within the* meaning of these terms in Regulation 1 of the Israeli Securities Regulations (Private Offering of Securities in a Registered Company), 5760-2000. On April 29, 2007 the Tel-Aviv Stock Exchange approved the listing of the shares that will derive from the exercise of these options. (For details see immediate report concerning a private offering which is neither material nor exceptional that was published on April 15, 2007, an immediate report that includes the Tel-Aviv Stock Exchange's letter concerning the approval that was published on April 29, 2007, and the amending report from June 19, 2007, which amended the options exercise periods that were published in the aforesaid report from April 15.)

1.4.6 On May 7, 2007 the holdings of Mr. Haim Shani, Chairman of the Board of Directors and CEO of the Company and a controlling shareholder therein, increased due to the acquisition of Ordinary Shares of the Company within the framework of trading on the Tel Aviv Stock Exchange. Mr. Shani's holdings after the change were: 55.32% of the share capital and 58.92% of the voting rights (and on a fully diluted basis after the change: 35.06% of the share capital and 37.27% of the voting rights) (for details see immediate report concerning the status of holdings of interested parties, published on May 7, 2007). After performance of the second payment of bonds (Series 1) on May 23, 2008 and expiration of the warrants (Series 1) on May 25, 2008, Mr. Shani's holdings

were: 55.49% of the share capital and 59.11% of the voting rights (and on a fully diluted basis: 43.66% of the share capital and 46.50% of the voting rights (for details see immediate report concerning the status of holdings of interested parties published on May 25, 2008). In the wake of personal acquisitions of Company shares (see section 1.4.2 above), and Company convertible bonds (see sections 1.19.4 and 1.19.5 below), Mr. Shani's holdings rates further changed, and as of the date of publication of this periodical report, his holdings stand at: 55.75% of the share capital and 59.39% of the voting rights (and on a fully diluted basis: 44.02% of the share capital and 46.89% of the voting rights). (For details, see immediate report concerning the status of holdings of interested parties published on January 20, 2009.)

1.4.7 On May 23, 2008, the Company executed the second payment of principal and interest in respect of the bonds (Series 1) allotted by the Company in 2004, pursuant to the Prospectus published on May 12, 2004. Likewise, the Company's warrants (Series 1) allotted under the same prospectuses, expired on May 25, 2008 (for details, see an amending report regarding a payment of bonds and expiry of options from May 26, 2008, to the report from May 25, 2008). On November 23, 2008, the Company paid interest on this bond. (For details concerning a payment of interest on the bonds, and payment of interest differences which the Company saw fit to make in connection with this bond, see section 1.19.4 below.)

Following these payments, 17,500,000 bonds of this type remain in circulation, convertible to 1,944,444 Company shares, in accordance with the terms of those same bonds (for further details, see immediate report on a change in the Company's securities dated May 25, 2008).

1.5 Dividend Distribution

The Company has not distributed dividends since it was established. The Company has no plans to distribute dividends in the foreseeable future.

Part II - Other Information

1.6 Financial information on the Company's sectors of activity

1.6.1 Below is financial information on the Company's sectors of activity:

	For the year ended December 31		
	2008	**2007**	**2006 (not IFRS)**
	NIS in thousands as reported		
Revenues:			
Products	64,418	60,041	53,711
Systems	14,597	41,613	40,370
Other	705	699	700
Total Revenues (*)	79,720	102,353	94,781
Sector Costs			
Products	42,070	43,205	36,284
Systems	21,194	40,445	36,123
Other	716	641	643
Total	63,980	84,291	73,050
Sector Results			
Products	22,348	16,836	17,427
Systems	(6,597)	1,168	4,247
Other	(11)	58	57
Total	15,740	18,062	21,731
Non-attributed expenses	(8,943)	(8,242)	(14,719)
Operating Profit (*)	6,797	9,820	7,012

(*) Consistent with financial statements

	As of December 31	
	2008	**2007**
	NIS in thousands as reported	
Assets used by sector:		
Products	23,184	20,582
Systems	3,813	9,095
Other	53	151
Unallocated	75,371	83,985
Total Assets (*)	102,421	113,253

(*) Consistent with financial statements

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

1.7 General environment and impact of external factors on Company activity

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

For an analysis of the general environment, as well as for general information on areas of activity presented in this report below, the Company relies, *inter alia*, on several market surveys. However, it is important to note that the Company has no market surveys on these areas of activity that were conducted after the onset of the global economic crisis in the second half of 2008. These sources include, among others, a summary of a survey and forecast from June 2008 conducted by ARC Advisory Group and a previous report from September 2005, titled Programmable Logic Controllers Worldwide Outlook (Market Analysis and Forecast through 2012) (summary accessible to the public at http://www.arcweb.com) (hereinafter: the "**ARC Report**"); a survey and forecast from August 2004 conducted by IMS Research, titled PLC 2004 Worldwide, an article from June 2007 titled "Steady Growth in Worldwide PLC Market" (summary accessible to the public at http://www.imsreasearch.com), publications from September and December 2004 by the same entity (hereinafter, jointly: the "**IMS Report**"); and a survey and forecast from July 2001 conducted by Frost & Sullivan (Frost & Sullivan World Programmable Logic Controllers #7450-10) (hereinafter: the **"Frost & Sullivan Report"**). Hereinafter, wherever this report relies on the above market surveys, this fact will be explicitly indicated.

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

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

Notwithstanding the aforesaid, the Company is unable to either estimate or quantify the impact of such developments on the results of its operations. For a discussion of other external factors, including specific market risks (including exposure to the global economic crisis that started in 2008, as well as exposure to changes in currency rates, interest rates and the like) and their manner of management, see section 1.22 below. For a discussion of information concerning the general environment and external factors relevant to each sector of activity separately, see sections 1.9 and 1.10 below.

Part III - Description of Company business by sectors of activity

1.8 Overview - synergy between Company's sectors of activity

The Company engages, as stated above, in the Products sector, in the design, development, manufacture, marketing, sale and support of industrial automation products, mainly PLCs, and in the Systems sector, in design, construction and maintenance services within the framework of projects for the automation, computerization and integration of computerized production and/or logistics systems, mainly automated warehouses and distribution centers and automated parking systems.

Although the Company operates in the Products sector and in the Systems sector separately in terms of policy, decision making, budgets, resources and other inputs, there is a synergy between these sectors within the Company, as well as a continuous process of feedback and mutual contribution, primarily in respect of feedback concerning market needs and customers' preferences, technological trends, business opportunities, data on competition, and other areas. Furthermore, both sectors (Products and Systems) concurrently use many common infrastructures (as detailed in Part IV below). The Company's CEO, together with its management, implement the mutual contribution and feedback as aforesaid on an ongoing basis.

1.9 **The Products Sector**

1.9.1 Structure of the activity sector and changes thereto

The Company's main products are PLCs which integrate, within a single unit, the control components (hardware and software constituting the active part of the PLC, or its "brain") and the interface components (HMI - Human-Machine Interface) intended to allow the operator to control the PLC itself, and through it the instruments controlled and monitored by the PLC, with no prior knowledge of programming required. Integration of the control and interface components in a single unit is a feature, which to the best of the Company's knowledge, has only begun being established in the realm of industrial controllers in the 1990s. As far as the Company knows, up until then the PLC market comprised mostly PLCs without an integral operation and control interface forming an integral part of the PLC, as well as PLCs with a complex integral interface and limited computational and data processing capabilities.

1.9.2 Standards

The manufacture and/or marketing of products in the field of control and automation is subject to various standards in different parts of the world, some of them general to the field of electronics and some more specific to the field of control. In this context the relevant standards are mainly EN-50081-1 and EN-50082-2 (for electromagnetic compatibility), European safety standards (such as the CE standard), and American and Canadian safety standards (such as the UL/cUL 508 standard).

Commencing in 2005, new regulations came into effect in the European Union in connection with the issue of electronic waste, under two complementary directives: (a) the WEEE Directive - which came into effect on August 13, 2005 and deals with the

handling of the waste of electric and electronic equipment; (b) the Restriction of Hazardous Substances (RoHS) Directive - which came into effect on July 1, 2006. This directive limits the use of six substances in electric and electronic equipment marketed in Europe after July 1, 2006, including lead (Pb), mercury (Hg), cadmium (Cd), etc. For details regarding compliance of Company products with these standards and Company assessments in this regard, see sections 1.9.22 and 1.9.23 below.

1.9.3 Changes in scope of sector operations and profitability

According to the ARC Report (see above), the global PLC market was estimated at more than $ 9 billion in 2007, and is expected to grow to approx. $ 12 billion by 2012. The IMS Report (see above) estimates the global PLC market at approx. $ 6 billion in 2003, and anticipates a growth to approx. $ 9 billion by 2011. The earlier Frost & Sullivan Report estimated the market at approx. $ 6.7 billion already in 2001, expecting it to grow to as much as $ 9 billion already in 2007 (this report preceded the global economic crisis between 2001-2003 and the one that began in 2008). These sources estimate the average annual growth rate of the global PLC market between 2004 and 2011 to range from 4.5% to 7.9%, taking into account several trends as follows:

(a) PLCs of various sizes: The number and type of external devices that can be connected to and controlled by a PLC define its dimensions as a nano PLC, micro PLC, small PLC, medium PLC or large PLC. As stated in section 1.9.8 below, the Company focuses in the Products sector on nano, micro and small PLCs, that have, based on the sources quoted above, the highest relative rates of growth.

(b) Areas of Application: Concurrently with the increasing need for automation as explained above, the global and local economy affect the market, as reflected, *inter alia*, in the different market development rates projected for the coming years in different industrial sectors. Thus, for example, the ARC Report estimates that the motor vehicle industry, which accounts for approx. 17% of the global industrial PLC market, will grow between 2004 and 2009 by approx. 5.9% per year, and that the food and beverages industry, which accounts for 12% of this market, will grow between these years by approx. 6.7% per year. Machinery manufacturers, which account for approx. 11% of the global industrial PLC market, are expected to grow between 2004 and 2009 by approx. 6.4% per year. The highest rate of growth according to the ARC Report is in the building control industry, which accounts for approx. 3% of the PLC market and is expected to grow between 2004 and 2009 by approx. 8.9% per year.

(c) Geographical sectors: Examination of the geographical distribution of sales of PLCs around the world in recent years (according to the ARC Report) shows that, in general, about 44% of sales take place in Europe, the Middle East and Africa, about 20% in North America, about 18% in Japan, about 15% in Asia (mainly China and India), and about 3% in South America. Concurrently, economic growth and industrial development in certain regions of the world, such as Brazil, Russia, India, China and Eastern Europe, in the field of establishing production capacity and local enterprises, and the increasing introduction of automation into such enterprises, give rise to expectations of higher growth rates in these regions.

As stated above, till now the PLC market has shown sustained growth, and the various market surveys presented above indicate expectations of further growth in this market and its expansion into additional areas, involving keen competition which is likewise expected to grow in volume and also expand into various fields (a forecast that, as stated, preceded the onset of the global economic crisis in 2008). The Company identifies a trend towards increased utilization of decentralized systems based on smaller PLCs. In the Company's opinion this trend arises, *inter alia*, from ongoing pressure on prices of PLCs. The above may, in the Company's estimation, cause a decline in profitability for companies engaged in this field (including Unitronics, although the Company is unable to quantify this decline in profitability[1]), resulting from a decline in market prices of PLCs.

1.9.4 Technological changes which could have a material impact on the sector

The PLC market is characterized by frequent technological developments, introduction of new products and technologies, and changes in market needs and requirements. The developments and innovations in the fields of electronics, communications and computers also influence the control and automation industries, including a trend towards miniaturization of PLCs (smaller units that compete in terms of functionality and price with large units from previous generations), expanded use of communications (between PLCs, and between PLCs and the command computers and organizational systems, using available and widespread communications technologies such as Ethernet, Internet and cellular communications), and development of convenient, user-friendly interfaces including the use of color screens in equipment and machinery. The Company designs its products in accordance with these trends, including miniaturization (down to palm-sized products), integration of convenient and user-friendly interfaces (such as color and touch screens) in the body of the PLC, and built-in communications capabilities as described in sections 1.9.8.1 and 1.9.10 below.

1.9.5 Critical success factors in the sector and changes therein

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

1.9.6 Principal entry/exit barriers of the sector and changes therein

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

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

1.9.7 Competitive landscape in sector and changes therein

To the best of the Company's knowledge and based chiefly on the Frost & Sullivan Report, which lists about 70 companies defined as "key competitors", it is possible to define three categories of key competitors in the global market of industrial PLCs:

(a) Market leaders, usually multinational companies active globally in multiple fields, including PLCs. This group includes, *inter alia*, companies such as Mitsubishi Electric Automation Inc., Rockwell Automation / Allen Bradley Company Inc., Siemens AG, Omron Corp., Schneider Electric and GE Fanuc.

(b) Large multinational companies primarily engaged in PLCs. This group includes, *inter alia*, companies such as Yokogawa Corp., Automation Direct/Koyo, Bosch Rexroth AG, Toshiba International Corp., Philips Components and Festo Group.

(c) Smaller companies operating in limited geographical areas or dealing in special niche products. This group includes, *inter alia*, companies such as Honeywell Safety Management Systems, Kim Controls, Horner Electric APG, B&R Industrial Automation and Pilz. The Company estimates that its activity in the Products sector belongs to this category. The Company is not aware of other Israeli companies in this category.

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

1.9.8 Products and services

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

1.9.8.1 PLCs and expansion units

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

one product series to another in its nature and complexity, and it includes a data display (alphanumeric and/or graphic), a programmable keyboard and/or a regular keyboard and/or a touch screen. The PLC communicates with external components (such as the production devices themselves, engines or sensors) by means of built-in physical connections ("sockets" of sorts, similar to phone or computer sockets) intended for data input and output. The input/output capabilities of a PLC (number and type of connectable devices) define its dimensions as a nano PLC, micro PLC, small PLC, medium PLC or large PLC. The PLC's I/O capabilities may be expanded using external expansion units, thereby upgrading its functioning (as described below). The Company's PLCs have been designed for compatibility with the different protocols of line and wireless communications, including by means of the Internet (remote control and access, from inside and outside the organization, by means of a computer, with no physical connection), intranet (PLC-PLC communications and/or PLC-computer communications within the organization), and by means of a cellular phone (access to information and/or to means of control without a physical connection and without a computer, using cellular phone infrastructures, e.g. by means of SMS messages or by transmitting files over various telecommunications networks, such as GSM, CDMA, GPRS, CDPD and others). The communications capability of the PLCs is intended to enable command, control and monitoring of systems and processes, not only from the site in which the PLC is installed (production floor, logistics warehouse, etc.), but also from other stations, including the management offices or even from outside the organization's premises, thereby providing access to data and/or means of control for different levels in the organization, from production machine operators within the organization, through the organization's planning and control levels (including raw material inventory planning, finished goods etc.) and all the way to senior management or even people outside the organization. Below are certain major attributes, which distinguish among PLCs in the above categories:

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

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

(a) Alphanumeric PLCs, nano/micro PLCs of M90/M91 series: A series of palm-sized products, with an interface containing 15 programmable keys and a mini LCD screen for displaying alphanumeric characters, and up to 38 integral input/output points, expandable up to an additional 96 input/output points via an external expansion unit (see sub-section (f) below).

(b) Graphic PLCs: nano/micro PLCs and small PLCs of the Vision™ series: A series of products with a graphic display and advanced communications capabilities, marketed at relatively low prices compared to similar products. This series includes the Vision230™, the Vision260™, the Vision120™ and the Vision 130™ PLCs in a palm-size casing, with an illuminated mini LCD screen allowing graphic display, a keyboard with up to 33 programmable and customizable keys and expandable input/output points.

(c) Graphic PLCs with a touch screen: PLCs of the Vision280™ and Vision290™ series: A series of products with a larger, illuminated LCD screen permitting graphic display and operation using the screen (a touch screen). The operator's interface is especially user-friendly (and also contains, in the Vision280™ model, a 27-key programmable and customizable keyboard), with integral input/output points expandable up to 153 points using an external expansion unit (see sub-section (f) below). The enhanced computation and data processing power of the PLCs of this series, together with their advanced display capabilities and their user-friendly characteristics, are designed to enable their use mainly for large and complex systems.

(d) Graphic PLCs with a color touch screen: PLCs of the Vision530™-Color, Vision570™ and Vision350™ series: A series of products with a larger, illuminated color LCD screen permitting graphic display and operation using the screen (a touch screen). The operator's interface is especially user-friendly, with integral input-output points expandable up to 153 points using an external expansion unit (see sub-section (f) below). The color display feature integral to this PLC is in line with market trends, which demand friendlier user interfaces and application of color displays in many machines and devices.

(e) Graphic PLCs: nano-PLCs of the Jazz™ series: a series of PLCs smaller than current products and at lower cost than current products. This series includes palm-sized products, with an interface containing programmable keys and a mini LCD screen as well as a small number of integral input/output points, which are not expandable. The objective of this series is, *inter alia*, to provide a substitute for “smart relays” using a complete PLC at low cost, thereby expanding the Company’s range of products and allowing its customers to purchase additional products from the Company, which they currently purchase from its competitors. An expanded product line is also intended to support the expansion of the Company’s client base by allowing accessibility to potential new clients.

(f) External expansion units: In/Out expansion units designed to increase the I/O capabilities of the PLCs beyond their integral capabilities (by increasing the

number of integral sockets) and thus to expand the array of tasks, processes, and devices managed, controlled and reported by them. The Company's external expansion units include units enabling the addition of tens of I/O points (besides the PLC's built-in points), as well as units enabling, via the use of an industrial communications network, the addition of hundreds of I/O points, depending on the type of PLC (the PLC's specific type and power determine its ability to handle the number of points). This allows for upgrading the PLCs' functional capabilities to match those of small and medium PLCs. These expansion units are designed to increase the flexibility and compatibility of the various PLCs according to the varied and specific needs of each user, and also to aid in reducing the costs involved in the purchase, installation and maintenance of larger and more expensive PLCs and/or of larger numbers of PLCs.

(g) Accessories: The Company provides complementary accessories for the above PLC series and expansion units, including such components as cables, adapters, programming kits, user guides as well as products not manufactured by the Company, such as cellular modem units, power suppliers and protocol converters. These accessories are intended to provide a comprehensive solution for the customer from a single source, thereby improving the flexibility and fit of the various PLCs to each user's varied and specific needs, and to reduce the costs involved in purchasing the array of components required for the application.

The Company's products focus on a range of up to tens of integral I/O points per individual PLC, with the ability to expand by tens to hundreds of points, using external expansion units and communications networks. In the future the Company may expand its activities into the realm of larger PLCs, allowing operation of a higher number of I/O points (see section 1.9.10.2 of this report).

1.9.8.2 Software programs

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

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

(b) Software for management of logistics systems and production floors: The Company develops and markets, as a package together with the logistics systems which it constructs, and also as stand-alone products, software for management of warehouses, marketed under the name UniStock™, intended to enable command, control and management of automatic and/or manual storage systems (software known in the industry as WMS - Warehouse Management System), including management of inventories, orders, issues and distribution, as well as operation and synchronization of the movements of automatic conveying systems and handling of mini-terminals (software known in the industry as MFC - Material Flow Control). The Company develops and markets, as a package together with the automated parking systems constructed by it, an automated parking management system (APMS), intended to enable automatic command, control and management of automated parking facilities, including management of admission, parking and delivery of vehicles, as well as operation and synchronization of the movements of automatic conveying systems. The Company also has software for management of production floors, marketed under the name UniTrack™, intended to enable command, control and management of production apparatus, including data collection from the production apparatus, processing of the data, and coordination of production resources.

These software programs operate in the Microsoft Windows environment, under client-server architecture, and are designed to support multiple languages (including Hebrew) and to communicate with organizational ERP, management or billing systems. These software programs can be installed and implemented as is, like any other application program, without the need for software modifications to accommodate unique needs, but it is also possible to customize them to the specific and unique needs of each user.

1.9.8.3 Trends and Changes - Products

The Company's products are focused mainly in the segment of micro and nano PLCs. This segment is characterized in the market surveys described above as the market segment with the most rapid growth rate. At the same time, this market segment is highly competitive and prices of products therein are steadily declining (see also section 1.9.14 below).

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

1.9.8.4 Services

Services of the Products Department comprise primarily technical support for Company products, and are delivered by a technical support team offering pre-sale support services for purchasing Company products (mainly consulting for customization of products to each customer's specific needs), post-sale training and technical support for assimilating the products and/or troubleshooting. Applications to the support team usually originate from the Company's distributors (see section 1.9.12.2 below), from direct end users and from indirect end users (who purchased the Company's products from distributors in Israel or abroad). These applications are processed by support staff, with involvement of lab, development and marketing staff of the Company as required.

The Company typically provides a 12-48 month warranty for its products. The Company also provides technical support services for its distributors prior to actual sales (pre-sale services), at the Company's discretion on a case-by-case basis. The Company does not make provisions for warranty due to insignificance (absence of applications and/or applications for insignificant sums).

1.9.9 Revenue segmentation and profitability of products and services

The Company's revenues from its activity in the Products sector amount to approx. 57%, 59%, and 81% of its total revenues in 2006, 2007 and 2008, respectively. The various series of the Company's major products contribute to its profitability with no material differences among them. The changes in profit rates of the Company's Products Department operations between 2006 and 2008 are largely due to different (though not significantly different) profit margins of several transactions, coupled with changes in manpower inputs during these periods. The Company estimates that the gross profit rate of the Products Department operations will decline during 2009 owing to the implementation of Accounting Standard No. 30 of the Israel Accounting Standards Board relating to development costs that satisfy the conditions for being recognized as an intangible asset.

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

	For the year ended December 31		
	2008	**2007**	**2006** **(Not IFRS)**
	In NIS thousand (*) (and percentage of total revenues/gross profit, approximated)		
Products (**) (***)	(81%) 64,418	(59%) 60,041	(57%) 53,711
Gross profit (amount and rate)	(50%) 31,900	(45%) 26,931	(49%) 26,291

(*) The financial data for the years 2006, 2007 and 2008 are in NIS thousands as reported.

(**) In addition to complete products (PLCs and expansion units), the Company sometimes sells products together with certain components of PLCs and sometimes only parts and components (electronic cards, panels, individual components). In cases in which a product is sold together with additional components, their sale is included in the sale of the product. There are no significant differences in the method of sale, the demand, the production processes and/or the customer profiles, between the various series of the Company's products and/or in sales of whole products compared to components.

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

1.9.10 New products

The Company, through its R&D teams, engages in the development of new technologies and products and in the upgrading and improvement of existing ones. There is no certainty that development of these technologies and/or products will be completed, or if completed, that a market for them will exist[2] .Below is a brief description of major technologies and products in different stages of development by the Company.

1.9.10.1 WilCo™ (internal name) - command and control via decentralized PLCs: The Company is continuing R&D activity with respect to a series of products designed to enable command and control by means of a network of decentralized PLCs linked together physically and/or by wireless communications, intended to allow flexible and modular configurations of industrial command and control systems. System elements include wireless communications capabilities, a centralized/ decentralized command system and an Internet access platform.

The Company is progressing in the stages of development of the WilCo™ technology, and has completed several milestones that include, *inter alia*, various design activities and the development of subsystems of components of the technology (which have yet to complete the technological feasibility stage). Nevertheless, due to the relatively low participation rate of the Chief Scientist at the Ministry of Industry, Trade and Labor in funding this development (see section 1.9.18 in this report), the Company has decided to shift the focus of its development efforts to other products (see section 1.9.10.2 in this report) while continuing development of the WilCo™ technology at a slower pace[3]. Certain of the produce of the development of the

[2] The information concerning development of these products and market recognition for them is forward-looking information. The principal data which served as a basis for this information are the stages in the development of the technology as of the date of this report, which do not yet allow to identify significant technical feasibility at competitive market prices, the need for continued substantial investments in R&D expenditures, for which there is no assurance that they will be available to the Company at all or to the required extent, as well as the need to educate markets and consumers for use of decentralized control systems and/or the technologies under development. The principal factors which may prevent this information from materializing are: completion of development stages to indicate a high probability of technological feasibility at competitive market prices, and development of markets and a consumer culture appropriate for decentralized controllers and/or the technologies under development by the Company.

[3] The information concerning completion of development of components of the WilCo™ technology is forward-looking information. The principal data which served as a basis for this information are: analysis of actual progress made in development stages; analysis of the Company's ability to market these components of the

WilCo™ technology are already being sold as modules intended for integration in existing Company products, in order to expand certain capabilities of the existing products, such as an Ethernet network connectivity expansion card for PLCs of the Vision™ series. The Company registered a US patent in connection with certain aspects of the WilCo™ technology. The Company filed the patent application for this patent in accordance with the international patent cooperation treaty (PCT) (see section 1.13 in this report). The Chief Scientist at the Ministry of Industry, Trade and Labor participated in funding part of the development program associated with this technology (see below).

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

During the reported period, the Company launched PLCs with a color touch screen and additional expansion units, with a view to further expanding the Company's suite of products (see section 1.9.8.1 in this report).

Among other things, the Company developed during the reported period and plans to continue developing, additional series of PLCs and/or new control products that will allow the Company to offer its customers PLCs in dimensions outside the existing range of Company products[4]. These products are planned to include, as stated, smaller products than the existing ones, as well as additional products that will enable the expansion of the Company's product line to include also larger products offering command and control solutions for larger and more complex systems than those for which the Company's existing products are intended. The purpose of this process is, *inter alia*, to expand the basket of Company products and permit its customers to purchase from it additional products that they are currently purchasing from the Company's competitors. The broader product line is also intended to expand the Company's customer base by providing access to new potential customers. Development of these products has yet to pass the technological feasibility stage.

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technology; and the potential for its market acceptance. The principal factors which may prevent this information from materializing are: the extent of the investments required for such activity, which may significantly exceed the Company's budgets for such items; restrictions on the Company's ability to commercialize these technologies at competitive market prices; as well as absence of developed markets and a consumer taste suitable for using the technologies being developed – in addition to the general risks outlined in section 1.22 of this report.

4 The information concerning development of products in dimensions outside the existing range of Company products is forward-looking information. The principal data which served as a basis for this information are the Company's development programs which are based, *inter alia*, on analysis of market surveys as detailed in sections 1.7 and 1.9.3 above, analysis of market needs and consumers' preferences as reflected in the Company's direct contacts with the markets, technological feasibility, the Company's estimations as to anticipated R&D costs of funding such developments as well as the strong competition in this field as detailed in this report. The principal factors which may prevent this information from materializing are the extent of the investments required for such activity, which may significantly exceed the Company's budgets for such items; restrictions on the Company's ability to commercialize these technologies at competitive market prices or at all; absence of developed markets and a consumer taste suitable for using the technologies being developed; as well as the superior financial and technological means available to a major part of the Company's competitors – in addition to the general risks outlined in section 1.22 of this report.

1.9.10.3 "Shelving" Company products: The Company is working to increase the level of "shelving" (turning a product into an off-the-shelf product) of the Company's management and control software programs used in the field of logistics systems (such as the UniStock™ package and the automated parking management systems), so as to significantly reduce the need for specific software customization to users' needs[5].

1.9.11 Customers

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

1.9.11.2 Major Customers: For details see section 1.9.12.3 in this report.

1.9.11.3 The Company regularly examines the credit that it has provided to customers and the potential losses that could arise from the provision of credit to customers. The Company makes specific provisions for debts where collection is in doubt.

1.9.12 Marketing and distribution

The Company's products and services are marketed and sold through the Company's internal marketing network consisting of some one hundred and forty distributors (of which approx. 80 are in the United States) in about fifty countries (including Israel) across Europe, Asia, South and Central America, North America and Africa, and a wholly owned subsidiary incorporated in the United States.

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[5] The information concerning planned changes in management and control software programs and the ability to reduce the need for specific software customization to user needs is forward-looking information. The principal data which served as a basis for this information are: analysis of market surveys as detailed in sections 1.7 and 1.9.3 in this report, analysis of market needs and consumers' preferences as reflected through the Company's direct contacts with the markets, technological feasibility, R&D costs of funding such changes as well as the strong competition in this field as detailed in this report. The principal factors which may prevent this information from materializing are: the extent of the investments required for such activity, which may significantly exceed the Company's budgets for such items; restrictions on the Company's ability to upgrade such software programs as required for marketing them as off-the-shelf products and the superior financial and technological means available to a major part of the Company's competitors – in addition to the general risks outlined in section 1.22 of this report.

1.9.12.1 The Company's marketing infrastructure: The Company's internal marketing staff coordinates and guides the activity of the Company's network of distributors, on an ongoing basis as well as at central events such as conferences, courses and training sessions held by the Company at its own facilities or at the distributors' facilities. The marketing personnel also maintain direct contact with current and prospective users of the Company's products and services, for the purpose of follow-up and feedback, nurturing customer relations and identifying business opportunities. The Company likewise maintains a technical support team consisting of several employees, each in charge of a desk covering several countries and providing support services prior to and for the purpose of purchasing the Company's products (mainly advice for the customization of products to the specific needs of each applicant) and post-purchase training and technical support for assimilation of products and/or troubleshooting. Applications to the support team usually come from the Company's distributors, from direct end users and from indirect end users (who purchased the Company's products from distributors in Israel or abroad). These applications are processed by support staff and, if required, also with the involvement of the Company's development and marketing staff.

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

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

1.9.12.3 Material distributor: The Company's revenues from one of the distributors of its products constituted approx. 5.3%, 4% and 4.7% of its total revenues in 2008, 2007 and 2006, respectively. On March 1, 2007, a new distribution agreement was signed with this distributor according to which it serves as exclusive distributor of the main series of the Company's PLCs in a defined territory, for a five-year term, which is automatically extended by four additional terms of five years, subject to meeting certain minimum orders. According to the agreement, the distributor is obligated to keep minimum quantities of stock, to provide a bank guarantee or a letter of credit to secure payment of its orders, to refrain from selling competing products during the term of the agreement (and in certain cases also for a limited period after termination thereof) and to confidentiality during and after the agreement term. The distributor is further obligated to provide service during 24 months to customers who purchase the Company's products from it, against the Company's corresponding commitment towards the distributor. The agreement is mutually terminable in the event of breach and dissolution, and otherwise, by a prior 15-month notice.

The Company's revenues from another distributor of its products constituted approx. 6.5%, 5.7% and 4.9% of its total revenues in 2008, 2007 and 2006, respectively. A distribution agreement was signed with this distributor in September 2008, according to which it serves as exclusive distributor of the main series of the Company's PLCs in a defined territory including a number of countries, until the end of that year and thereafter for a one-year term which is automatically extended at the end of each year by four additional terms of one year, subject to meeting certain minimum orders. According to the agreement, the distributor is obligated to keep minimum quantities of stock, to refrain from production, distribution and/or promotion of competing products during the term of the agreement and to confidentiality during and after the agreement term. The distributor is further obligated to provide service during 24 months to customers who purchase the Company's products from it, against the Company's corresponding commitment towards the distributor. The agreement is mutually terminable in the event of breach and dissolution, and otherwise, by a prior 6-month notice.

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

1.9.13 Order backlog

As of December 31, 2008, the Company had an order backlog of approx. NIS 4.8 million for the Products Department, and as of March 1, 2009, the Company had an order backlog of approx. NIS 5.3 million for the Products Department, as detailed below.

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

	Product order backlog as of December 31, 2008 NIS in thousands	**Product order backlog as of March 1, 2009 (closest possible date to date of this report) NIS in thousands**
For Q1 2009	1,871	1,432
For Q2 2009	1,094	1,405
For Q3 2009	431	713
For Q4 2009	852	929
For 2010 and thereafter	607	840
Total	5,319	4,828

Differences in the reported order backlog for different periods arise from changes in delivery schedules of ordered products on the one hand, and from receipt of new orders on the other hand, all within the ordinary course of the Company's business.

1.9.14 Competition

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

As mentioned in section 1.9.7 in this report, the majority of the Company's competitors are larger and more established companies, with financial and other means which significantly surpass those of the Company, including R&D, marketing and sales

resources, as well as a recognized name in the market. These competitors are able to react before the Company to changing market needs, and also to offer customers more flexible and convenient financing terms than those offered by the Company, thereby limiting the Company's ability to compete effectively. There is no certainty that the Company will successfully compete in this market, and its competitors may succeed in capturing some of its market share.

1.9.15 Seasonality

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

1.9.16 Production capacity

Since 2001 the Company has expanded its utilization of subcontractors for its production activities and has reduced its in-house production activities, with the aim of reducing costs and improving timetables. The Company diverts to subcontractors mainly the manufacture of the plastic components in its products (such as the casings of the PLCs and the expansion units) and the automatic placement of about 98% of the components of the electrical circuits (PCBs). The Company itself assembles, using its staff and its facilities in Airport City, about 2% of the components of the electrical circuits, and generally performs by itself the final assembly of the product, its electrical testing, calibration and packaging. The use of subcontractors to carry out most of the production stages is also intended to improve the possibilities of growth and flexibility in view of the high production capacity using existing subcontractors and the ability to add subcontractors as needed (subject to the learning and assimilation curve described below). As for production operations within the Company, as of the date of this report most of the production capacity is utilized, but the Company is able to increase its production capacity for these activities as needed, because of the possibility of assigning to these tasks unskilled manpower that is therefore relatively available and that requires only a short training period. The average production time for most of the Company's products is about three months, with the actual lead time for Company products being usually shorter, depending on the order volume and the finished goods inventory available to the Company as of the date of every such order.

The Company generally has no written agreements with subcontractors for production, it is not bound by any framework arrangements with them and it hires their services as needed on an *ad hoc* basis. The business terms usually applicable between the Company and its production subcontractors consist of open credit without guarantees, payment on the basis of current month + 75 days, predefined delivery time (one to two weeks), and prices subject to volume discounts. The Company's payments to the principal production subcontractor in 2008, 2007 and 2006 constituted 8.7%, 5.7% and 2.9%, respectively, of total Company expenses for raw materials and subcontractors in those years. Payments to other subcontractors in those years were of an insignificant amount per contractor. The Company is not dependent on specific production subcontractors and therefore can retain numerous and diverse contractors to that end. However, the replacement of an existing subcontractor with a new one might involve delays arising from a learning and assimilation curve with respect to the Company's needs and/or use of special production components customized to the Company's needs (e.g. molds for casting the plastic

casings of the PLCs). In the Company's estimation, replacing a subcontractor as mentioned above is not expected to cause material extra costs.

1.9.17 Fixed assets and facilities

The Company has no fixed assets or facilities specific to the sector, and it uses its fixed assets and facilities for its business in both sectors (for details, see section 1.12 below).

1.9.18 Development Expenses

For details regarding products and technologies under development, see section 1.9.10 above. Below are the main details concerning sums expended by the Company during the periods detailed below on R&D activities:

	For the year ended December 31		
	2008	**2007**	**2006 (Not IFRS)**
	NIS in thousands as reported (*)		
Payroll and benefits	6,349	6,395	5,726
Subcontractors	518	447	464
Other expenses	2,183	2,345	2,331
Less Chief Scientist participation	-	-	-
Less capitalized expenses	(7,433)	(7,625)	-
Total	1,617	1,562	8,521

From 1992 through December 31, 2008 the Chief Scientist at the Ministry of Industry, Trade and Labor (hereinafter: the **"Chief Scientist**") participated in the funding of the Company's R&D plans under the Encouragement of Industrial Research and Development Law, 5744-1984 (hereinafter: the "**R&D Law**"). Below are details of the plans approved by the Chief Scientist's office, which are in progress and/or still bind the Company:

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

The Company is required to pay royalties to the Chief Scientist at a rate of 2% to 5% of sales of products developed with the Chief Scientist's assistance, up to repayment of the total grants (and in respect of grants received starting from January 1999 - plus interest at

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

The letters of approval are conditional on compliance with the provisions of the R&D Law and the regulations and rules pursuant thereto, and on performance of the R&D plans as described in the applications, within the performance period, while reporting and obtaining approvals with respect to changes in holdings and controlling means in the Company, as well as transfer of controlling means in the Company to a foreign resident or a foreign company. In this framework the Company is subject to further restrictions, such as refraining from overseas production of products based on technology developed with the assistance of the Chief Scientist, and from the transfer of such technology overseas or to third parties, except with the approval of the Chief Scientist. The Company is also prohibited from transferring knowledge developed with Chief Scientist financing assistance, to any third party, without the Chief Scientist's authorization, as mentioned. Up to December 31, 2008, grants to the Company under these programs were approved in a total sum of NIS 2,473,000. From 1992 to 2005 and up to December 31, 2008, the Company paid royalties to the Chief Scientist in a totaling NIS 170,000 (of which approx. NIS 25,000 from 2001 to 2005). As of December 31, 2008, the balance of liabilities to the Chief Scientist attributable to programs that the Company's management believes may generate royalties, amounts to approx. NIS 170,000. As of the date of this report, the Company has met its obligations to the Chief Scientist.

1.9.19 Human Capital

Activity of Company staff is split into departments, where staff are employed and involved in both Company sectors, but focus mainly on issues pertinent to their own specific sector (for details see section 1.14 below).

1.9.20 Raw materials and suppliers

1.9.20.1 Company products may incorporate about 80-500 mechanical and electronic components, including electronic circuits and their components, keyboards, alphanumeric and/or graphic display screens, and others. About 92% of the components in most of the products are standard (off-the-shelf) products, manufactured in Israel or abroad and can be purchased from various suppliers that can be replaced without any changes to the product. The Company is not dependent on a single source for the supply of these raw materials. About 6-7% of the components in most of the Company's products are custom made for it in accordance with a specification and/or plan, mainly plastic casings, keyboards, printed circuit boards (PCBs), various connectors, metal parts and touch layers in the touch screen. Although these components are of major importance in Company products, they may be ordered from several suppliers/

manufacturers inside and outside Israel, in most cases without need of any product adaptations, and there is consequently no dependence on a single supplier/ manufacturer. However, in some cases (about 4% of off-the-shelf components in most Company products), although they may be purchased from several suppliers, their replacement by new suppliers is liable to cause delays (of up to three weeks) resulting from the alternative supplier's learning and assimilation curve with respect to the Company's needs.

Regarding a small number of items that represent about 1%-2% of the components in most of the products (representing immaterial amounts in purchases, financially, in the years 2007, 2008), although these are off-the-shelf components that could be purchased from suppliers inside or outside Israel, there is a dependence on a single manufacturer for the supply thereof (among others, the manufacturers Infineon AG, WizNet Technologies, Lattice Semiconductors, STMicroelectronics). Although such components may be installed in Company PLCs even if made by other manufacturers, this might involve structural and functional changes and various modifications of the hardware and software that are liable to cause delays and customizing costs. In order to reduce this dependence the Company enters into annual orders, and in a few cases minimum stock maintenance agreements, with several different suppliers, in order to ensure availability and regular supply of these components. The Company has no sole supplier of raw materials from whom it purchases 10% or more of the annual cost of its raw materials and subcontracting services.

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

	Off-the-shelf components	**Custom made components**
Multiple manufacturers/suppliers with no need for customization	92%	6%-7%
Multiple manufacturers/suppliers; need for little customization (potential delay of up to 3 weeks)	4%	
Single manufacturer; a few suppliers; replacing the manufacturer may cause significant delays and may involve changes to products and associated costs	1%-2%	

1.9.20.2 The Company generally has no written agreements with suppliers of raw materials, it is not bound by framework arrangements with them (save for annual orders and certain minimum stock maintenance agreements as detailed below) and it orders materials as needed, on an *ad hoc* basis, generally against purchase orders only. The commercial terms generally applicable to the raw materials suppliers are open credit without guarantees, payment on the basis of current month + 75 days (after approval by acceptance control), predefined delivery time (sometimes including an option for the Company to change quantities and/or schedules), prices subject to volume discount, delivery and transport at the supplier's expense and the supplier's warranty for replacement of goods, at its expense, in the event of nonconformity or quality problems.

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

1.9.21 Working Capital

1.9.21.1 Inventory: The Company holds on a regular, ongoing basis about 60-115 days of components and raw materials inventory for forecasted requirements for a period of about two months. In addition, the Company holds a finished products inventory for supplying current orders for some 45-70 days. Company policy is generally to hold a finished products inventory based on actual orders or on internal forecasts made and updated on a regular basis by the Company. The Company may deviate from this policy from time to time, mainly when preparing for extraordinary events or in response to the behavior of the raw materials markets in the world (for example, in cases of fear of possible temporary shortages of electronic components throughout the world and/or limited allocations of components by the component manufacturers in certain cases of excess demand). The Company estimates that its spare parts inventory is sufficient to supply the needs of its customers. The Company manages the production processes, purchasing of raw materials, raw materials inventory and finished products inventory through a general management program that concurrently serves the Company's procurement, production, and inventory systems, and this alongside financial management and accounting (ERP - Enterprise Resource Planning). The Company has no policy regarding product returns and has not yet been required to deal with this. Starting in Q1 of 2006, the Company has been implementing new means of inventory conservation, focused primarily on increasing the finished goods inventory on hand at the Company, and shifting this inventory in some of the markets to sites closer to the distributors, in order to assist the distributors and customers and to make Company products more accessible. As part of the above move, the Company has enlarged the finished products inventory at the subsidiary and of its distributors in the U.S., and continues to regularly review various options for establishing distribution centers at various locations around the world where inventory is to be stored[6] .

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

1.9.21.2 Warranty: The Company typically provides a 12-48 month warranty for its products.

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

	2008		**2007**		**2006**	
	Average credit in NIS thousands	Average credit days	Average credit in NIS thousands	Average credit days	Average credit in NIS thousands	Average credit days
Customers	7,240	41	4,686	28	3,946	27
Suppliers	4,204	70	3,213	50	2,822	55
Subcontractors	1,098	87	773	59	540	48

1.9.22 Environmental Issues

As detailed in section 1.9.2 above, the WEEE (Waste from Electric & Electronic Equipment) Directive 2002/96/EC came into effect in the European Union on August 13, 2005. The provisions of this directive impose on the manufacturers of electric and electronic equipment the responsibility of handling the product at the end of its life cycle, for the purpose of reuse, recycling and even the disposal of certain components. The legislation requires the manufacturers of electronic equipment to register, report and mark the products, and imposes on them the responsibility for everything pertaining to the collection and recycling of the products. The WEEE Directive is a guideline of the European Parliament for the member states in the European Union, to apply its provisions as framework directives binding on EU citizens, subject to local legislation in each member state. Likewise, the framework directive establishes a minimum threshold of requirements; however, each and every country may, at its discretion, toughen the requirements. In practice, there is ambiguity regarding the application of this directive, due to the differences in internal legislation between the EU member states, particularly in the matter of timetables for assimilation, registration systems, marking requirements and collection infrastructures in the various countries, and even in the interpretation of the definition of a "manufacturer".

From inquiries conducted by the Company it seems that as of the date of this report, the Company's products (as defined and used) are not currently required to fulfill the provisions of the WEEE directive. Nevertheless, the provisions of this directive may apply to Company products in the future, and, therefore, the Company is following the implementation of the directive in the various countries through its distributors, as well as through professional consultation, participation in conferences and updated professional literature. With regard to marketing in certain countries, such as Germany, the products are marked as required in accordance with the local standards in coordination with the distributor in that country. The Company estimates that when the exact requirements for each country become clear, it can prepare by using appropriate marking, collection and recycling arrangements with its distributors and/or in any manner compliant with the statutory requirements in each country[7]. As of the date of this report, the Company has

[7] The information concerning Company preparations for complying with the WEEE directive is forward-looking information. The principal data which served as a basis for this information are: developments currently known

spent insignificant sums on activities designed for compliance with the provisions of the directive. The Company estimates that it will not be expected to spend material sums associated with compliance with these provisions over the next year and/or in periods thereafter.

1.9.23 Standards and Quality Control

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

Most Company PLCs from the M90/M91 and Vision™ series, as well as some of its external expansion components, comply with the EN-50081-1 and EN-50082-2 standards for electromagnetic compatibility (the functioning of electronic components in an environment of electromagnetic radiation). Accordingly, the Company labels these products using the CE marking. Most Company PLCs from the M90/M91 series and Vision™ series, and a substantial part of its external expansion components, comply with the requirements of the UL/cUL 508 standard (safety aspects, including fire, temperature resistance, and electrical safety). Accordingly, the Company marks these products, and products largely based on them, with the UL/cUL marking. As mentioned, the Company operates a lab for checking the proper functioning of finished products, including mechanical and operational properties, and software components.

As mentioned in section 1.9.2 above, the Company is working concurrently to implement the EU's RoHS (Restriction of Hazardous Substances) directive, which limits the use of six substances in electric and electronic equipment marketed in Europe after July 1, 2006. The restriction on the use of these substances, and mainly lead, necessitates changes in the electronics industry throughout the world, including in the field of components production and soldering processes, which affect the components, the printed circuits and the solders (soldering alloys).

From inquiries conducted by the Company it seems that as of the date of this report, the Company's products (as defined and used) are not currently required to comply with the provisions of the RoHS directive. Nevertheless, the provisions of the directive may apply to Company products in the future, with the major implications of the directive's applicability being the requirements to use RoHS-compatible components (free of lead and the other substances), including printed circuits (produced worldwide for many years using lead) and other casing materials, as well as to render the soldering processes RoHS-compliant (use of appropriate soldering pastes and alloys, adaptation of the temperature profiles of the soldering processes, and so on).

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to the Company regarding the directive's implementation, the technical steps needed for its implementation, and the Company's collaboration with its distributors in this matter. The principal factors which may prevent this information from materializing are the diverse implementations in the various countries, changes to directive provisions and/or their interpretation or lack of cooperation on the distributors' part in realizing the implementation, and the means needed for the directive's implementation, for which there is no assurance that they will be available to the Company at all or on the scope required for implementation.

In 2005 and 2006 the Company was involved in implementation of this directive by recruiting several full-time engineers engaged in identifying components of Company products which are not RoHS-compliant and replacing them with compliant components, purchasing of RoHS-compliant components and specification of manufacturing processes, including soldering, for RoHS-compliance. Concurrently, this issue is correlated with the readiness of electronic component vendors to supply compliant components. As of the date of this report, the Company has spent insignificant amounts in respect of activities designed for compliance with the provisions of the directive, and the Company estimates that, as of the date of this report, most of its products comply with the provisions of the directive (as currently phrased). New products are designed from the outset to comply with the RoHS directive. The Company estimates that it will not spend material sums associated with compliance with the provisions of this directive over the next year and/or in periods thereafter[8].

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

1.9.24 Business objectives and strategy

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

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

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

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

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

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

1.9.25 Development forecast for the upcoming year

In light of the onset of a global economic crisis in 2008, the Company estimates that it may be difficult to maintain the sales rate of its products, which has characterized recent years. To continue its operations in the products sector, the Company will be required to make greater investments in R&D and in marketing, so as to be able to offer existing and prospective customers more competitive and efficient products, designed to provide a suitable response to those offered by its competitors. At the same time, there is no assurance as to the effectiveness of this policy in maintaining the present sales rate.

1.9.26 Financial information by geographical segments

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

Below are pro-rata data regarding Company revenues from sales of the Products Department, by major geographical region for the indicated periods, proportionate to Company revenues from the Products Department operations alone, and proportionate to total Company revenues:

	For the year ended December 31					
	2008		**2007**		**2006 (Not IFRS)**	
	In percent					
	Share of Products Department revenues	Share of total Company revenues	Share of Products Department revenues	Share of total Company revenues	Share of Products Department revenues	Share of total Company revenues
Europe	54%	44%	55%	32%	53%	30%
Israel	7%	5%	8%	4%	9%	5%
North America	23%	19%	20%	12%	21%	12%
South & Central America	9%	8%	10%	6%	10%	6%
Asia	3%	2%	4%	2%	4%	2%
Africa	1%	1%	1%	1%	-	-
Rest of the world	3%	2%	2%	1%	3%	2%

For additional data regarding Company operations by geographic segments, see note 25 to the financial statements (Chapter 3 of this report).

1.10 **Systems Sector**

1.10.1 Structure of the sector and changes therein

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

1.10.2 Legislative restrictions, standards and special constraints applicable to the sector

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

1.10.3 Changes in scope of sector operations and profitability

A market survey from June 2006 on the subject of supply chain management, conducted by ARC Advisory Group (summary accessible to the public at http://www.arcweb.com)[9], estimates this global market at approx. $ 5.5 billion in 2006, with expectations for growth to approx. $ 8 billion in 2010 (about 9.2% per year). Another report by this company estimates total sales of warehouse management software (WMS) at more than $ 1 billion in 2006, with expectations for growth to $ 1.3 billion in 2011. According to ARC, recent years have seen intense merger and acquisition activity in the WMS Systems sector. However, it is important to note that the Company has no market surveys in these sectors of activity that were conducted after the onset of the global economic crisis in the second half of 2008.

The logistics systems and automated parking systems market in Israel is a highly competitive market. The Company competes for each project against several companies from Israel and international companies who are leaders in their field. The market in Israel is relatively small, and there are many competitors vying for the few projects implemented in this field every year. Economic growth and a relative improvement in the economic situation in Israel, together with the increasing complexity of business activities which the automated logistics systems and the automated parking systems are designed to handle, should, in the Company’s estimation, increase the number of projects implemented in Israel in this field, including the number of projects to be implemented by the Company[10]. However, at the same time the Company estimates that due to the extensive competition in this field, and the continued development of new markets in this

9 The above market survey is the most current source available to the Company. Nevertheless, as far as the Company knows, other sources exist on this issue, which are not available to the Company.

10 The information concerning a possible growth in the number of projects to be implemented in Israel in the logistic Systems sector, including the number of projects to be implemented by the Company, is forward-looking information. The principal data which served as a basis for this information are: the assumption that economic growth and a relative improvement in the economic situation in Israel, together with the increasing complexity of the business activities which the automated logistic systems and the automated parking systems are designed to handle, will impact on the demand in this field. The principal factors which may prevent this information from materializing are: lack of improvement in the economic situation in Israel and/or the world (or insignificant improvement) and/or failure of businesses to make investments, in general, and investments in automated logistic systems and automated parking systems, in particular, notwithstanding a relative improvement in the economic situation, *inter alia* for reasons of cutting expenses and/or changes in inventory maintenance and/or management policy and/or delay or absence of market recognition of the advantage of automated logistic systems and automated parking systems. Also, insofar as this information pertains specifically to the Company, other factors may prevent such information from materializing, such as the Company’s inability to compete, and the other risk factors enumerated in section 1.22 below.

field outside Israel (initially, primarily in the USA), its profitability may be reduced in the future.[11]

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

The automated parking facility sector has been in existence for many years, but in recent years it has expanded with the proliferation of vehicles, dearth of parking spaces in cities and increasing cost of land. Technically, the automated parking facility sector may be associated with that of automated logistics, and it has components and technical features similar to those of automated warehouses and the transport technologies applied thereto. The Automated & Mechanical Parking Association (AMPA) established in the USA claims that this sector is expanding in the USA (http://www.ampapark.org). A study by Market-Data Enterprises Inc., dated April 2005 (summary accessible to the public at http://www.mkt-data-ent.com) estimates the total parking garage market in the USA alone at $17 billion. However, it is important to note that the Company has no market surveys in these sectors of activity that were conducted after the onset of the global economic crisis in the second half of 2008.

1.10.4 Technological changes which could have a material impact on the sector

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

1.10.5 Competitive landscape in sector and changes therein

The construction of automated logistics systems and automated parking systems involves the integration of different disciplines including, amongst others, mechanical and engineering design, construction (including foundations, shell and other construction components), supply and installation of mechanical conveying systems; design, development and installation of electrical and control systems; design, development, and installation of software systems; and coordination between all the entities participating in the construction of the system. In the logistics Systems sector the Company competes

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

with several Israeli and multinational companies that offer services of design, installation, upgrading and maintenance of industrial systems, mainly automated warehouses and logistics systems, including companies from the Dmatic, Swisslog, Beven and Viastor Groups. In the field of warehouse management software systems the Company has several competitors, most of them Israeli, including a company from the Matrix Group. In the field of automated parking systems the Company competes with several multinational companies offering services of design, installation, upgrading and maintenance of automated parking systems, including companies from the Automation, LTV and Westphalia Groups among others.

1.10.6 Barriers to entry/exit and critical success factors in the sector and changes therein

The Company estimates that in the Systems sector, the major barriers to entry include the knowledge and experience required for analysis and design of logistics systems within organizations as well as automated parking systems; the duration of sale processes for logistics systems due, among other things, to the conservative nature of the target markets for such systems; complex software systems for warehouse and parking facility management and control technologies for conveying systems within such systems; and the required support and maintenance infrastructure in order to provide the level of service and availability required of such systems. The Company estimates that the major exit barriers are its commitment to complete system construction projects, according to signed contracts, and its commitment to provide service for the constructed systems under signed annual service contracts.

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

1.10.7 Products and services:

The Systems sector does not include products (other than custom software for management of logistics, automated parking facility and production floor systems - see section 1.9.8.2 above and section 1.10.7.1 below), but is rather focused on delivering various services, primarily design, construction and maintenance services as part of automation, computerization and integration projects of automated production and/or logistics systems, mainly automated warehouses and distribution centers and automated parking systems (as detailed below).

1.10.7.1 Automated production and/or logistics systems and automated parking systems

The major components of these systems include the following: (a) Storage and retrieval components (a mechanical controlled and computerized system, generally comprising dedicated customized cranes installed on dedicated rails, that perform the storage, retrieval and transport tasks); (b) A shelving system installed along either or both sides of the crane rails; (c) Conveying systems for transporting the loads to and from the automated storage system; and (d) Command and control systems for the mechanical

components of the system, including PLCs, sensors and control software. Sometimes these components may also include infrastructure components, such as foundations, shell, ceiling and other structural elements.

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

The services of the Systems Department include the design and engineering of the systems, construction of new systems and/or upgrading and servicing of existing systems, up to the stage of commercial operation. After this stage the Company also offers maintenance services for these systems based on framework agreements or on call. The Systems Department also markets the Company's management software (the UniStock™ (WMS) software and the UniTrack™ software as well as the Automated Parking Facility control and management software - see section 1.9.8.2 above), which are marketed under user licenses, mainly within the framework of projects for the construction of systems as described in this section. In the Company's facilities in Airport City the Company maintains a technical office for providing service and maintenance for various systems installed by the Company's Systems Department, including a mechanical maintenance team, an electrical maintenance team, a control team, and a software team.

1.10.7.2 Trends and changes

The Company's services in the logistics systems sector are focused mainly on the Israeli market. The Company has no statistical data and/or market studies pertaining to this field in Israel. Based on its experience from recent years in this market, the Company believes there is a trend of increasing penetration of these technologies into various organizations in Israel, with the growth in the number of automated warehouses reported to have been installed in the Israeli market in recent years providing, in the Company's estimation, an indication of this trend. The Company estimates that various macroeconomic considerations, including the cost of land, manpower costs, transportation considerations and the distance of the distribution centers from population centers, could strengthen the consolidation of automated logistics technologies in the Israeli market. However, largely due to the onset of the global economic crisis in the second half of 2008, last year saw a slowing of project starts in this sector, and the Company is unable at this time to make any assessment regarding growth or maintenance of the sales rate in this sector.

As noted above, the automated parking facility sector has been in existence for many years, but in recent years it has expanded with the proliferation of vehicles, dearth of parking spaces in cities and increasing cost of land. The Company estimates that various macroeconomic considerations, including the cost of land, manpower costs,

transportation and environmental considerations, and the need to improve drivers' welfare, could strengthen the consolidation of automated parking technologies worldwide.

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

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

Concurrently with the Company's activity in Israel in the Systems sector, the Company is examining possibilities for strategic collaborations outside of Israel (in the first stage primarily in the USA), with a view to developing additional markets for the services of the Systems Department, such as the automated parking sector as described above. This activity is in the initial stages and there is no certainty that the process will ripen into actual business activity, or regarding the terms of such activity and its effect on the Company, in the event that it materializes.

On February 4, 2009, the Israeli website "The Marker" published details regarding certain Company operations, including the item that the Company had signed a contract for the construction of an automatic parking facility in Mexico. Following the release of this item, the Company announced that it was in negotiations with a customer in Mexico for the construction of an automatic parking lot in the capital Mexico City. No contract has been signed yet with this customer, but the customer paid "earnest money" in an insignificant amount, subject to signing a binding agreement in the future. The transaction is put at $4 million; however, the full terms of the transaction, including the final transaction amount have not yet been determined (see immediate report concerning an event or matter outside the ordinary course of Company business, whose submission was delayed in accordance with Regulation 36(b) of the Securities Regulations (Periodical and Immediate Reports), 5730-1970, from February 9, 2009).

The Company is presently in various stages of exploring possibilities of joining other projects for the construction of automatic warehouses and/or parking facilities in Israel and around the world, which have not yet matured.

1.10.8 Revenue and profit segmentation

The Company's revenues from its activity in the Systems sector amount to approx. 43%, 41% and 28% of its total revenues in 2008, 2007 and 2006, respectively. The bulk of the revenues from this activity derive from customers entering with the Company into onetime transactions for the purpose of constructing one system only. The contribution to

the profitability of the Company's operations in the Systems sector varies from transaction to transaction, mainly according to the Company's status as a main contractor (which is usually characterized by a larger financial scope and lower profitability, mainly due to the need for subcontractors) or as a subcontractor (which is usually characterized by a lower financial scope and higher profitability, mainly due to the use of its own resources), and in accordance with the particular technical and functional requirements of each particular transaction and the results of the negotiations with the entities ordering the service in each particular case.

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

	For the year ended December 31		
	2008	**2007**	**2006 (Not IFRS)**
	In NIS thousand as reported (and percentage of total revenues/gross profit, approximated)		
Systems	(28%) 14,597	(41%) 41,613	(43%) 40,370
Gross profit (loss) (amount and rate)	(4,052)	(11%) 4,578	(15%) 6,257

1.10.9 Customers

The direct customers of the Systems Department are generally the end user, in most cases industrial and/or logistics businesses, generally in the private sector (although in a few cases these are customers from the public sector, including the defense forces or local authorities), that need an automatic warehouse, automatic parking, dispatch systems and/or automatic logistics centers, and which contract with the Company for acquiring a single system. The Company has no certainty of acquiring new customers in the Systems sector of a certain scope or at all. Customers of the Systems Department generally retain the Company's services for designing a single new automatic system and/or constructing a system at the customer's site and to provide services and support for the system after it is rendered operational. In certain cases the Company is retained for the servicing, improvement, upgrading, or enhancement of an existing system at the customer's site (installed by the Company or by a third party). The services of the Systems Department are currently provided mainly in Israel, to customers from numerous sectors, including food processing, pharmaceuticals, import/export warehouses, logistics centers, etc. In some cases the party retaining the Company is the principal contractor hired by the end user to integrate an entire system, who subcontracts to the Company specific tasks only, such as the design of the system or the installation of PLCs in the system.

The services of the Systems Department are provided pursuant to agreements whose terms vary from case to case, but which generally incorporate a list of defined and detailed tasks, technical and functional specifications which the system that is being constructed will be required to meet, timetables (generally ranging from 3 to 15 months for setting up the system, depending on its complexity and other factors, which vary from case to case) and installment payments according to the progress in work. Under these agreements the Company is generally required to furnish guarantees (mostly bank guarantees) to secure

performance of its obligations. As of the date of the report, the Company furnished bank guarantees as aforesaid for a total cumulative sum of approx. NIS 62 thousand. Within this framework the Company is obligated, under letters of undertaking concerning the issue of bank guarantees to: (a) repay any amount demanded by the bank and/or paid by the bank in respect of or in connection with said guarantees, and to repay all amounts to the bank with interest at the highest rate and bank fees; (b) indemnify or compensate the bank in any case of legal proceedings or claims filed against the bank, resulting in damages, expenses or losses to the bank in relation to the guarantees, directly and/or indirectly; and (c) waive any claims or contentions against the bank relating to the fulfillment of guarantees.

The Company further undertakes to train the customer's employees to operate the system, and grants a 12-month warranty period on average for the major components of the system, which generally includes an undertaking to commence attending to certain malfunctions within predefined timetables, a commitment to provide service against payment at the end of the warranty period, and an undertaking to ensure the availability of spare parts for defined periods.

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

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

	For the year ended December 31					
	2008		**2007**		**2006 (Not IFRS)**	
	Share of total revenues (in percentage)					
	Of sales of Systems Department	Of total Company sales	Of sales of Systems Department	Of total Company sales	Of sales of Systems Department	Of total Company sales
Customer A	7.8%	1.4%	24.9%	10.1%	2%	0.8%
Customer B	2.5%	0.5%	8.1%	3.3%	39.7%	16.9%
Total sales to major customers	10.3%	1.9%	33.0%	13.4%	41.7%	17.7%

Agreements with major customers: Below are the major terms and conditions of agreements between the Company and customers whose revenues account for 10% or more of the Company's consolidated revenues in the aforementioned periods, in addition

to general terms and conditions applicable to such agreements as stated in section 1.10.9 above:

(a) Material agreement A: Under an agreement from July 2004 between the Company and principal customer B (Scope Metal Trade & Technical Services Ltd.), the Company undertook to design, supply and install an automatic logistics system in the customer's factory in Israel. The customer engages in the import, processing, manufacture and marketing of raw materials and metal products. According to the agreement the system is to be based on PLCs and additional software and command tools of the Company, as well as other assemblies and components to be supplied and installed by various subcontractors. According to the agreement, as revised from time to time after the signing thereof (last revised in January 2005), the cumulative amount of the contract (linked to the euro) is approx. NIS 23.5 million plus VAT. Installation of the system was completed in accordance with the terms of the agreement with the customer in the course of 2005.

(b) Material agreement B: Under an agreement from June 2006 between the Company and principal customer C (Tnuva Cooperative Agricultural Produce Marketing Ltd.) which became effective in April 2006[12], the Company undertook to design, supply, set up and install an automated logistics system for the Beer Tuvia regional distribution center for a total cumulative amount of €3.7 million (NIS 21 million) plus VAT. The installation of the system was completed, in accordance with the terms of the agreement with the customer, during 2007.

The Company regularly examines the credit that it has provided to customers and the potential losses that could arise from the provision of credit to customers. The Company makes specific provisions for debts whose collection is doubtful.

1.10.10 Marketing and distribution

In the systems sector, an in-house marketing and sales team operates in Israel, including a number of employees handling relations with potential customers, responding to tenders, preparing price proposals, promoting customer relations and locating business opportunities in Israel and overseas, with assistance from the Company's network of distributors as required (for details of the Company’s network of distributors, see section 1.9.12 above).

[12] Actual project execution started in Q4 of 2005 as detailed in the table above.

1.10.11 Order backlog

Selling Systems Department services entails a long sales cycle which requires considerable time and resources, including participation in tenders and presentations, along with other participants, and the services are rendered over a period of 3-15 months, depending on system complexity. Below are data on binding agreements for the Systems Department services in the periods as follows:

	Agreements to deliver Systems Department services as of December 31, 2008 – thousands of NIS	**Agreements to deliver Systems Department services as of March 1, 2009 (closest possible date to date of this report) thousands of NIS**
For Q1 2009	2,391	2,925
For Q2 2009	3,585	4,367
For Q3 2009	2,435	3,050
For Q4 2009	2,134	2,798
For 2010 and thereafter	711	771
Total	11,796	13,911

Differences in reported order backlogs for different periods arise from changes in milestone schedules of current projects on the one hand, and from receipt of new orders for projects on the other hand, all within the ordinary course of the Company's business.

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

1.10.12 Competition

The Company is unable at this time to make any assessment regarding the size of the Israeli market and its share therein, and it has no statistical data to rely on in this regard. The majority of the Company's competitors are larger and more established companies, whose financial and other resources significantly exceed those of the Company, including R&D, marketing and sales resources, as well as a recognized brand name in the market. These competitors are able to react quicker to changing market needs, and also to offer customers more flexible and convenient financing terms than those offered by the Company, thereby limiting the Company's ability to compete effectively. There is no certainty that the Company will be successful in competing in this market, and its competitors may succeed in biting into its market share.

The Company competes and intends to continue competing, primarily on the basis of the quality of its services compared to that of its competitors (including service functionality, performance and quality of the technical support and customer service provided by the Company). However, there is no certainty that the existing or potential customers will

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

1.10.13 Seasonality

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

1.10.14 Production capacity

In the Systems sector, production capacity is in effect the Company's ability to implement projects on the scope and within the schedule ordered, and is primarily based upon the Company's internal staff, which was significantly increased in the years 2002-2006 and then readjusted for the number of projects in the years 2007-2008 (as detailed in section 1.14 in this report), concurrent with a growth in the Company's operations during these years, in this sector. As of the date of this report, the Company is exploiting this production capacity to the fullest, taking into account existing agreements for the installation of systems in the course of 2009. The Company adapts its production capacity in this area (including recruitment and increase of staff, as needed) in accordance with agreements for the installation of systems and/or system maintenance, which are entered into from time to time.

1.10.15 Fixed assets and facilities

The Company has no fixed assets or facilities that are specific to the sector, and utilizes the fixed assets and facilities for its activity in both sectors (for details, see section 1.12 below).

1.10.16 Human Capital

The activity of the Company's staff is divided into departments, with staff in each department employed and involved in both Company sectors, but focusing primarily on matters concerning their own specific sector (for details see section 1.14 below).

1.10.17 Suppliers and subcontractors

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

Furthermore, the Company usually links the currency and date of payment to subcontractors, to the currency and date of the payment it receives from the different customers for the specific component delivered by the subcontractor (back-to-back). This

means that generally payment is made to the subcontractor only after receipt of the applicable payment from the customer.

1.10.18 Working Capital

1.10.18.1 Warranty: The Company typically provides a warranty for major sub-systems in the Systems sector for 12 months on average.

1.10.18.2 Credit extended: Customers of the Company's Systems Department are generally granted credit for up to one month for each payment. Below are data on average extent of supplier credit, as well as subcontractor and customer credit:

	2008		**2007**	
	Average credit in NIS thousands	Average credit days	Average credit in NIS thousands	Average credit days
Customers	2,674	67	4,686	28
Suppliers	615	65	1,171	279

1.10.19 Standards and Quality Control

The activities of the Company's Systems Department in the supply, installation, maintenance, and upgrading of transport systems, automated warehouses and parking facilities, and control systems, comply with the requirements of ISO 9001, version 2000. Certain components of the systems constructed by the Company's Systems Department are designed in accordance with various standards, including Israeli Standards IS 413 relating to earthquakes, and IS 414 relating to wind resistance (regarding the structure of the warehouse and the shelves array); standards concerning hoisting facilities such as IS 1202 (hoisting facilities - steel cables, for cranes and elevators); and standards pertaining to electrical installations and other safety standards. The compliance of Company-constructed systems with these standards' requirements is generally checked by professional inspectors, independent of the Company, who test each system individually, as part of the processes for completing the system for delivery to the customer. Also in force in Israel are specific standards for the conveying systems sector, laid down by the European conveying equipment manufacturers association, which address, among other issues, the functionality of facilities and systems.

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

1.10.20 Business objectives and strategy

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

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

The Company further plans to continue developing and strengthening the marketing infrastructure of the systems sector in Israel and the business development activity *vis-à-vis* overseas entities with a potential for collaboration in the systems market outside Israel – initially, mainly in the USA and mainly in the sector of automated parking facilities (see agreement with Principal Customer D as per section 1.10.9 above). Likewise, the Company is in various stages of exploring possibilities of joining other projects for the construction of automatic warehouses and/or parking facilities in Israel and around the world. There is no assurance regarding the Company's ability to maintain and develop its marketing channels for its Systems sector, and this depends, among other things, on analyses of marketing attributes and markets for Company services, conducted by the Company from time to time, and the long and complex sales process for such services, as detailed in this report. At the same time, the Company also plans to continue, from time to time, to examine business opportunities in Israel and worldwide, which would allow expansion of its operations from the marketing and technological aspects. There is no certainty as to the terms of realization of such opportunities and/or whether they will be available to the Company at all.

1.10.21 Forecast for developments during the upcoming year

In view of the onset of a global economic crisis in the second half of 2008, the Company estimates that it will be difficult to maintain the rate of growth in Systems Department sales, which characterized the years preceding 2008. To enable systems sales, the Company will have to make large investments in marketing, sales promotion and staff training, in order to enable it to offer existing and potential customers

competitive and more efficient services designed to provide an appropriate answer to those offered by the Company's competitors.

The Company plans to continue directing additional resources to marketing activities and the penetration of specific export markets, with a view to expanding the scope of its target markets for these Systems Department activities, and in order to reduce its dependence in this regard on the Israeli market – initially, primarily focused on the USA[13].
The Company expects an increase in the development expenses, required for the development of components in this sector, intended, inter alia, for the purpose of reducing production costs in the Systems sector.[14]

1.10.22 Financial information on geographical segments

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

For additional data regarding Company operations by geographic region, see note 25 to the financial statements (Chapter 3 of this report).

1.11 Other Activities

The Company has a further activity, not included in the aforementioned major sectors of activity, involving insignificant revenues and investments. This activity is primarily maintenance and servicing by its subsidiary, Unitronics House Management and Maintenance (2003) Ltd., in connection with the use of Unitronics House (for details of subsidiary's operations, see section 1.21.1 below). The table below presents the Company's revenues from its subsidiary's aforesaid activity for the indicated periods:

	For the year ended December 31		
	2008	**2007**	**2006 (Not IFRS)**
	NIS in thousands		
Revenues from Unitronics Management operations	705	699	700

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

[14] The information regarding the anticipated increase in R&D expenditures is forward-looking information. The principal data which served as a basis for this information are: the Company's development programs as detailed in Chapter 1 (section 1.9.18); the stage at which the technology being developed by the Company stands, as of the date of the report; and the need for continued significant investments in R&D expenditures for the realization of Company plans. The principal factors that are likely to prevent this information from materializing are: changes in the Company's development programs due to reasons beyond its control (e.g. market needs and consumer preferences, competitors' developments, prices of raw materials and services needed by the Company), absence of a budget for funding the expenditures required for continued development in general or on the required scope, as well as possible technological difficulties in completing the development phases under said programs.

Part IV - Matters concerning overall Company activities

1.12 Fixed assets, facilities, insurance and liens

The principal fixed property used by the Company comprises the Unitronics House at Airport City, where the Company's offices and its other facilities in Israel are located. The fixed property further consists of computer systems, an automated logistic system, vehicles, laboratory equipment and office furniture.

1.12.1 Unitronics House - lease from the Israel Lands Administration: The Company has lease rights in the ground floor (including basement) and first floor (hereinafter: the "**Company's Floors**") in a building called **Unitronics House**, covering an area (excluding basement) of approx. 1,600 square meters gross, formally known as part of block 6832, parcel 27 (after initial parcellation of the lot marked 3 under the UBP known as GZ/MK/566/1) at the address: Airport City, P.O.B 300, Ben-Gurion Airport, 70100, Israel (hereinafter: "**Unitronics House**"). The Company also has lease rights in an additional lot of about one quarter acre adjacent to Unitronics House, serving as parking space for Company staff and visitors. Under an agreement from August 23, 2000 with Airport City Ltd. (hereinafter: "**Airport City**") the Company acquired a capitalized lease right (91%) in the Company's Floors for 49 years, to be registered in its name not later than November 2007. On April 16, 2008, lease contracts in respect of the Unitronics House were signed by the Israel Lands Administration. The Company is acting to have the Unitronics House registered as a condominium at the land registry office. The Company's rights in the Unitronics House serve as collateral for financing received by the Company for acquiring its rights in the building as detailed in sections 1.16.2-1.16.3 in this report. The balance of the depreciated cost of the Company's Floors as of December 31, 2008 is approx. NIS 14,944 thousand. In its ongoing activity the Company uses all areas of the Company's Floors in Unitronics House. The remaining floors in Unitronics House (floors 2-4) are leased from the Administration by a company controlled by the controlling shareholder of the Company who also serves as the Chairman of its Board of Directors and CEO (hereinafter: the "**Private Floors**"), and are let to third parties, except for approx. 632 square meters which are let to the Company (as detailed in section 1.12.2 below). The rights in the Private Floors were acquired about one month prior to the acquisition of the Company's rights in the Company Floors, under a separate contract, unrelated to the Company or to the contract under which the Company acquired its rights in the Company Floors, and at a price per square meter based on the same pricing basis which applied to the Company's acquisition of its rights.

1.12.2 Unitronics House - lease from a controlling shareholder: In addition to the Company's Floors which are utilized by the Company in full, as of August 2004 the Company rents approx. 196 square meters on the Private Floors, at terms identical to those at which areas on the Private Floors are let to third parties, which also reflect generally accepted rental terms in Airport City. The lease is for a term of three years, with an option for the Company to extend it for two additional terms of 12 months each. The rent is $13.52 per square meter per month (plus management fees to Airport City at $1 per square meter per month, and management fees at $2 per square meter per month to the Company's subsidiary, Unitronics House Management and Maintenance (2003) Ltd, with respect to the management of Unitronics House), subject to a 4% increase at the end of every two

years of leasing. The Company may terminate the agreement at any time subject to the introduction of a substitute tenant acceptable to the lessor. Due to the expansion of the Company's commercial activity in the ordinary course of its business, and further to the recruitment of additional manpower and the growth in activity, an actual need had developed to expand the areas from which the Company operates. Therefore, in August 2005 the Audit Committee and the Board of Directors of the Company resolved to approve an amendment to the lease agreement from August 2, 2004, pursuant to which the Company is to rent from the lessor, effective from August 1, 2005, an additional 436 square meters under the same terms. On March 25, 2007 the Company's board of directors and audit committee approved the exercise of the above option to extend the lease for an additional 12 month period (see immediate report concerning a transaction with a controlling shareholder or with a director that does not require the approval of the General Meeting, dated March 26, 2007 and section 4.8.2 in this report). On May 21, 2008, the Audit Committee and Company's Board of Directors resolved to approve exercise of the option a second time, and to extend the rent period starting from August 2008 by a further 12 months (see immediate report concerning a transaction with a controlling shareholder or with a director that does not require the approval of the General Meeting, dated May 21, 2008, and also a report concerning an exceptional transaction with an officer, dated May 21, 2008).

1.12.3 Unitronics Inc.: The Company's subsidiary, Unitronics Inc., rents offices near Boston, Massachusetts from a third party unaffiliated with the Company and/or with its controlling shareholders, covering a total area of approx. 1,521 square feet (approx. 141 square meters), let until March 2011, for annual rent of approx. $38,000 for the period till March 2009, for annual rent of $35,000 for the period till March 2010, and for annual rent of $37,000 for the period till March 2011.

1.12.4 Computer systems: The Company owns a system of computers and peripheral equipment which it uses for its current activities, in the various applications required by it for design, development, production, marketing and current operations. Amongst other things, this equipment includes an array of servers, workstations, security and protection systems, backup systems and various communications infrastructures. The system infrastructures are designed to permit a certain degree of flexibility for future growth in the volumes of activity.

The Company operates an automatic warehouse in its facilities in the Unitronics House at Airport City.

ERP (Enterprise Resource Planning) software is installed at the Company, which is used concurrently by the Company's purchase, production and inventory organizations, together with finance management and bookkeeping, management of customer relations and orders, project management, service and maintenance management and so forth. The Company holds licenses unlimited in time for use of this software, not subject to any payment (apart from payments made as part of installation and adaptation of the software for the Company's purposes, and other payments in the event of the addition of users and/or upgrades).

Regarding Microsoft operating systems and Microsoft Office products, the Company holds licenses for use on an annual basis in the framework of which it receives ongoing

version updates and upgrades. In other fields the Company holds licenses to use the various software programs and software tools installed on its computers at customary terms in the field.

1.12.5 Insurance

The Company and its subsidiaries are insured under an insurance policy which the Company estimates provides it with appropriate insurance coverage, as detailed below:

1.12.5.1 Property Insurance

The Company is insured under an extended fire insurance policy providing insurance coverage for accepted risks in fire insurance, including earthquakes and other natural hazards, burglary, as well as an “all risks” coverage extension.

1.12.5.2 Insurance for Consequential Losses

The Company is insured under a consequential loss insurance policy, which defines fixed expenses and annual net profit in the amount of $10,000,000 plus other expenses in the amount of $250,000.

1.12.5.3 Third Party Insurance

The Company is insured for liability in respect of bodily injury and/or property damage to a third party, for up to $5,000,000 per event and in the aggregate, in respect of damages which may occur during the insurance period.

1.12.5.4 Directors and Officers Liability Insurance

For details, see section 4.16.4 in this report.

1.12.5.5 Insurance for Unitronics Inc.

The Company’s US subsidiary, Unitronics Inc., has insurance coverage separate from that of the Company. Such insurance includes homeowners insurance for $1,000,000 per event and $2,000,000 in total; employer's liability and worker’s compensation insurance for $100,000 for accidental bodily injury, $100,000 per employee for bodily injury due to illness and in total $500,000 for bodily injury due to illness; and warehouse insurance for $1,000,000.

1.12.5.6 Other various insurances

The Company holds various other insurance policies, including contractor’s insurance, employer’s liability insurance, product liability and combined professional liability insurance, export-import shipment insurance and insurance for goods in transit.

1.12.5.6 The Company's management estimates that the Company is not under-insured.

1.12.6 Pledges

Other than pledges detailed in section 1.16.3 in this report, some of the Company's vehicles are subject to pledges in favor of the leasing companies from which the Company leases said vehicles.

1.13 Intangible assets

1.13.1 General: The Company claims copyrights and usage rights with respect to certain technologies, know-how, trade secrets (with regard to patents and trademarks, see below).

The Company protects its trade secrets and intellectual property rights primarily through confidentiality agreements with its employees and consultants, and some of its customers. There is no certainty that these means afford adequate protection and they cannot protect the Company against competing developments that may be independently developed by third parties.

1.13.2 Patent applications: In September 2004 the Company filed a patent application with the United States Patent and Trademark Office with respect to certain features of the WilCo™ technology (see above), further to the filing of a provisional patent application in September 2003. On May 29, 2007, the patent was registered in the US under the number: 7,225,037. Concurrently, the Company filed an application to register a patent under the international Patent Cooperation Treaty (PCT). As of the date of this report, a patent has not been registered in other countries, except for the US.

In May and October 2007, the Company filed regular patent applications and provisional patent applications with the United States Patent and Trademark Office with respect to certain Company-developed features of technologies related to automatic parking facilities. As of the date of this report, no patents have been registered pursuant to these applications and therefore, the Company does not have registered patent protection for these technologies against competing technologies independently developed by third parties. To the best of the Company's knowledge, the time required for actual patent award may be 3-5 years. Likewise, there is no assurance that patents applied for by the Company will be deemed innovative or will be registered within the above timeframes.

1.13.3 Application for trademark registration: The "Unitronics" name and the Company's logo have been registered as trademarks in Israel and in the US. The Company filed with the European Union Trademark Office an application to register the name "Unitronics" and the Company's logo as trademarks, and in September 2006, the Company's logo was registered in Europe pursuant to the above application.

The OPLC trademark, which is used to describe the Company's products, which integrate an Operator panel and PLC, was registered as a trademark in the US in June 2007.

The Company filed with the United States Patent and Trademark Office and with the Israeli Registrar of Patents, Designs and Trademarks, applications to register trademarks for names, designs (logo) and various samples, which are used by different product families of the Company. As of the date of this report, such trademarks have not yet been registered pursuant to the above applications.

The Company estimates based also on a "trademark research" conducted by the Company and various checks conducted by the Company's professional advisors from time to time, that there is a fair likelihood that its applications to register these trademarks will be accepted[15].

1.13.4 Domain names on the Internet: The Company purchased rights to use domain names (as well as domain names with country suffixes) under which it presents information about itself, its products and related matters. The Company uses these names as website addresses intended for communication with existing and prospective customers. In accordance with accepted practice, the Company is entitled to continue using these sites exclusively so long as it pays annual usages fees (in immaterial amounts) to the company maintaining the site.

1.13.5 In the years 2008, 2007 and 2006 the Company's expenses on investment in its intellectual property amounted to NIS 153,000, NIS 64,000 and NIS 156,000, respectively.

1.14 Human Capital

1.14.1 Organizational structure: The controlling shareholder of the Company, Mr. Haim Shani, serves as the Company's CEO and as Chairman of its Board of Directors.[16] .Several senior professional officers are subordinate to the CEO as set out in the chart below, in the fields of technology, finance and human resources. The Company's commercial activity is performed by the Products Department and the Systems Department, each headed by a senior professional officer or team that is subordinate to the CEO. Below is the organizational structure chart of the Company and the number of workers employed by it as of the date of the report, according to the organizational structure:

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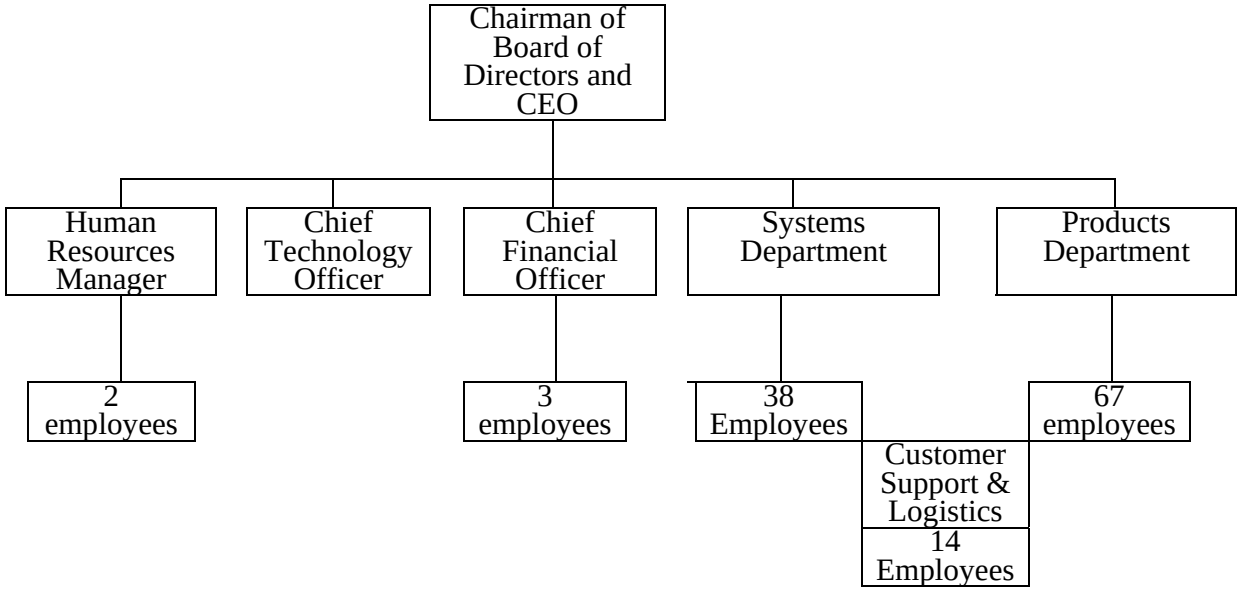
[15] The Company's estimates regarding its success in registering trademarks based on applications submitted is forward-looking information. The principal data which served as a basis for this information are: trademark research conducted by the Company and various checks conducted by Company's professional advisors from time to time. The principal factors that are likely to prevent this information from materializing are: the existence of competing priority trademarks that were not identified by the Company and/or failure to identify the major attributes and criteria for conducting a trademark search by the Company, as described above.

[16] Pursuant to the resolution of the general meeting of the Company's shareholders from April 13, 2004 and the resolution of the general meeting of the Company's shareholders from July 3, 2007 (for details see an immediate report on the appointment of a director dated July 3, 2007, as well as an immediate report concerning the results of an annual general meeting of the Company's shareholders dated July 3, 2007). In this regard, see also Section 4.16.5 below.



1.14.2 Company employees and breakdown: In proximity to the date of this report the Company employs 130 employees in Israel; the subsidiary Unitronics Inc employs 6 employees (without written personal employment agreements). The subsidiary Unitronics House Management & Holdings (2003) Ltd. has no employees. Below is the breakdown of the Company's employees in Israel by area of activity as of the relevant dates:

	No. of Employees		
Area of Activity	**Close to date of this report**	**31.12.2008**	**31.12.2007**
Sales and Marketing	18	18	21
Research and Development	26	26	31
Administrative	10	10	12
Production, logistics and quality control	42	42	45
Integration and Support	34	34	39
Total	**130**	**130**	**148**

Employee breakdown by occupation

Occupation	No. of Employees		
	Close to date of this report	31.12.2008	31.12.2007
Administration staff	12	12	12
Professional technicians	16	16	14
Software Programmers (academic)	24	24	28
Engineers	15	15	17
Technicians, warehousemen and mechanical assembly staff	25	25	27
Academics (general)	12	12	18
Associate Engineers	26	26	32
Total	**130**	**130**	**148**

As of December 31, 2007, the Company employed 148 workers, the subsidiary Unitronics Inc. 4 workers, and the subsidiary Unitronics House Management and Holdings (2003) Ltd. had no employees. As of December 31, 2006, the subsidiary Unitronics Inc. employed 5 workers, and the subsidiary Unitronics House Management and Holdings (2003) Ltd. had no employees.

The Company adjusted its workforce during the reported period as detailed above, in line with the changes in its operations as described herein, and in order to address its business plans.

1.14.3 Terms of employment: Most of the Company's employees work on the basis of written personal employment agreements, incorporating customary obligations as to confidentiality, non-competition and non-disclosure of the Company's intellectual property. The Company's liabilities in respect of employee termination benefits are partly covered through payments to executive insurance policies and pension funds. For the balance of Company liabilities in respect of said benefits not covered by such payments, adequate provision has been included in its financial statements.

Employment relations between the Company and its employees are governed by the provisions of the general collective agreement applicable to the metal, electricity and electronics professions by virtue of an extension order. The provisions of the collective agreement pertain, essentially, to maximum working hours, minimum wages, contributions to pension funds, cost-of-living increments (according to the Consumer Price Index), various insurances (in the event of illness or work accidents), dismissal, severance pay and other provisions pertaining to terms of employment. The Company generally provides terms of employment which are equal to or better than the minimum terms specified in the collective agreement.

From time to time the Company grants its employees options to purchase its shares under the option plans it adopted (for details see section 4.10.3 in this report). Except as stated

in section 1.14.4a below, the Company is not obligated to grant options to any of its employees, and in practice, options are granted by the Company's Board of Directors, according to management recommendations, and at the sole discretion of the board of directors.

An amendment to the Companies Regulations (Rules Concerning Outside Directors' Compensation and Expenses), 5760-2000, was publicized on March 6, 2008. In the wake thereof, on May 21, 2008, the Company's Board of Directors adjusted the annual compensation and participation compensation of outside directors sitting on the Board of Directors, to stand at NIS 25,000 and NIS 1,590, respectively, effective March 6, 2008. In accordance with this resolution, said adjustment will apply also to the compensation paid to another director sitting on the board of directors, who is not an outside director (but is also not an interested party except in his capacity as director), and who was paid until said adjustment the same participation compensation and annual compensation as that paid to outside directors in the Company (for details, see immediate reports concerning a transaction with a controlling shareholder or a director that does not require the approval of the General Meeting, dated May 21, 2008).

1.14.4 Executives and officers of the Company:

(a) The Company has personal employment agreements with Mr. Haim Shani (controlling shareholder and Chairman of the Board of Directors) and with Ms. Bareket Shani (Mr. Shani's wife, who also serves as a member of the Board of Directors), up to December 2008, subject to additional five-year extension periods (subject to all approvals required by law). Pursuant to the agreements, Mr. Shani serves as the Company's CEO and Ms. Shani serves as Deputy CEO and Human Resources Manager. Under the agreements Mr. and Ms. Shani are entitled to: (a) a monthly salary in the sum of $15,000 and $7,500, respectively; (b) options in a quantity no less than 115% of the number granted to the most senior employee in the Company after Mr. Shani and Ms. Shani, each, subject to all approvals required by law including the approval of the Tel-Aviv Stock Exchange for listing the shares deriving from these options for trade, as well as the approval of the general meeting of the Company's shareholders pursuant to Section 275 of the Israeli Companies Law; (c) customary social benefits such as executive insurance (contributions of 5% of monthly salary by the employee and 13.33% by the Company), continuing education fund (contribution of 2.5% of monthly salary by the employee and 7.5% by the Company), use of a company car (without determination of a particular car category) and reimbursement of expenses; (d) annual vacation of 30 days which may be accumulated over a period of two years only. Termination of the agreement with Mr. Shani is subject to approval of 75% of the directors and to prior notice of at least 6 months. Mr. Shani may terminate the agreement for any reason whatsoever subject to 3 months' prior notice. With respect to Ms. Shani, each party may terminate the agreement by a 2-month notice, and the Company will be required to provide a substantive explanation for the termination, if initiated by the Company. Mr. Shani and Ms. Shani agreed (voluntarily) to a decrease of 5% in their wages for a period of 12 months as of January 1, 2003. On April 12, 2005, the General Meeting of the Company's shareholders resolved to approve, following approval of the Company's audit committee and board of directors, the payment of a special bonus to Mr. Haim Shani as remuneration for his contribution to the successful performance of the

Company in the few years preceding 2004 in general, and in 2004 in particular, and for the Company having registered net profit in such year. The cost of the bonus to the Company amounted to approx. NIS 400,000. In addition, the general meeting of the Company's shareholders approved a framework transaction pursuant to which Mr. Haim Shani is to receive an annual bonus for each calendar year starting from 2005, as long as Mr. Shani is employed as the Company's CEO (hereinafter: the **"Future Bonuses"**), within 30 days from the date of approval of the financial statements by the Company's Board of Directors in respect of every such calendar year, at a rate of 7.5% of the pretax profit in that year (cost to the Company) (hereinafter: the **"Framework Transaction"**). The Future Bonuses are to be calculated for every year (non cumulatively) without regard to losses and shall be paid within 30 days from the date of approval of the financial statements by the Company's Board of Directors in respect of every such calendar year, and approval of their conditions by the Audit Committee and the Board of Directors as consistent with the conditions set in the above Framework Transaction. On March 25, 2007 the Audit Committee and the Board of Directors approved payment of a bonus in the amount of NIS 155 thousand to Mr. Haim Shani in respect of 2006, in accordance with the terms of the above Framework Transaction (for details, see immediate report concerning a transaction with a controlling shareholder or a director that does not require the approval of the General Meeting, dated March 26, 2007). On March 13, 2008, the audit Committee and the Company's Board of Directors approved the payment of a bonus in the sum of NIS 208,000 to Mr. Haim Shani in respect of 2007, pursuant to the terms of the above Framework Transaction (for details, see immediate report concerning a transaction with a controlling shareholder or a director that does not require the approval of the General Meeting, dated March 13, 2008). Mr. Shani is not eligible for a bonus in respect of 2008.

On March 27, 2006, the Audit Committee and the Board of Directors approved an amendment to the employment agreement between the Company and Mr. Haim Shani, pursuant to which the payment of Mr. Shani's present salary, amounting (as detailed above) to a total gross monthly salary of $15,000, plus the Future Bonuses (hereinafter: the "**Overall Salary**"), will be divided such that a part of the Overall Salary will be paid by the subsidiary Unitronics Inc., and the remaining salary will be paid by the Company, in respect of his services as its CEO, provided that the division of the Overall Salary among the Company and Unitronics Inc. shall be carried out in a manner whereby there will be no additional salary cost to the Company (on a consolidated basis with Unitronics Inc.) as compared to the salary cost to the Company without such division. Since the above division of Mr. Shani's salary allows diversion of part of the management resources to US markets in order to contribute to development and growth of Company business activity in such markets and also allows Mr. Haim Shani to be involved with and present at subsidiary activities in a manner that does not entail additional salary costs to the Company (compared to employment of any third party in the position above), the Audit Committee and the Board of Directors have determined that the amendment could only benefit the Company.

On May 21, 2008, the Audit Committee and the Company's Board of Directors resolved to approve the extension of each of the aforementioned existing

agreements, including all the amendments thereto, by a further 5 years, effective January 2009, under the same terms (see immediate report on a transaction with a controlling shareholder or a director that does not require the approval of the General Meeting, dated May 21, 2008).

The Company is materially dependent on the continued services of Mr. Haim Shani. The loss of Mr. Shani's services could adversely affect the Company's financial results.

(b) As of April 13, 2007, Mr. Haim Shani ceased to serve as Chairman of the Board of Directors (for additional details see immediate report concerning a senior officer who ceased to serve in his position from April 15, 2007) and Mrs. Bareket Shani who serves as a director and an officer in the Company was appointed, from that time on, to serve as Chairperson of the Board of Directors. Mrs. Shani is Mr. Haim Shani's wife (for details see immediate report on the appointment of a senior officer from April 15, 2007). On July 3, 2007, Mrs. Bareket Shani ceased to serve as chairperson of the Board of Directors (for details see immediate report concerning a senior officer who ceased to hold office, dated July 3, 2007) and Mr. Haim Shani, who serves as CEO of the Company, was appointed on that day to be the Chairman of the Board of Directors for a period of 3 years (for details see the immediate report on the appointment of a senior officer, dated July 3, 2007). This resolution was approved by the general meeting of the Company's shareholders on July 3, 2007 (for details see Section 1 to the immediate report concerning the results of an annual general meeting of the Company's shareholders, released on July 3, 2007).

(c) The Company's Deputy CEO and Products Department Manager is entitled, under his employment agreement, in addition to fixed wages, to a bonus at a rate of 3.5% to 5% of the annual growth in sales of the Company's main PLCs (after deducting commissions of certain third parties).

(d) The Company's Chief Technology Officer (VP) provides services through a service company under his control, against management fees in a fixed amount. The service company is obligated to pay contributions for social benefits in respect of his employment and all mandatory payments under any law, and to compensate Unitronics for any loss or damage incurred by it due to a determination that employer-employee relations exist between the service provider and Unitronics. The service provider personally guarantees the service company's obligations. The Company estimates that it is not materially exposed to claims of existence of employment relations between the Company and the Chief Technology Officer (VP), based, among others, on a legal opinion obtained by the Company stating that chances are slim that any court of law would find that such employment relations exist. On February 1, 2007 an amendment to the management agreement between the Company and the Chief Technology Officer (VP) was signed, pursuant to which, as of February 1, 2007, the extent of services provided by the Chief Technology Officer was reduced to only 2 days a week and accordingly, the payment he is entitled to has been reduced by half as of June 1, 2007.

Company investments in training and instruction: The Company holds in-house courses for employees of the various departments, primarily in the field of safety at work. These courses are given by the security officer in the Company's facilities, as part of his position and the cost of his wages. In addition, the Company holds, as part of the international marketing activities and support for its distributors, professional courses for distributors and regional sales representatives. These courses are provided by the Company's support teams, at the facilities of the overseas distributors, and include familiarization with new developments and improvement of know-how in the operation and marketing of existing products. In the United States, regional courses are held occasionally, to which sales representatives and distributors from neighboring states are invited. The costs of such courses are included in the Company's marketing and sales expenses; the Company does not manage a separate budget earmarked for such expenses.

1.15 Investments

As of the date of this report and in the relevant reporting periods, the Company did not have any investments in investees, partnerships and ventures other than subsidiaries.

1.16 Financing

1.16.1 The Company's activity is financed by the Company's own equity and by external financing sources. The Company's external financing sources (in NIS thousands) are as follows (the data below also include the amounts of the special purpose loan specified in section 1.16.2 hereunder):

Credit Type	**As of December 31, 2008**		**As of December 31, 2007**		**As of December 31, 2006 (Not IFRS)**	
	Credit amount NIS thousand	Interest	Credit amount NIS thousand	Interest	Credit amount NIS thousand	Interest
Short-term bank credit (current account)	-	-	-	-	-	-
Long-term bank credit (dollars)	3,733	Libor+2.02%	4,196	Libor+2.02%	5.072	Libor+2.02%
Long-term bank credit (Euro)	4,399	Libor+2.02%	5,222	Libor+2.02%	5,650	Libor+2.02%
CPI-linked leasing loans	107	5.7%-8.5%	230	5.7%-8.5%	366	5.7%-8.5%
Series 2 bonds (CPI linked)	33,226	CPI+6.1%	30,941	CPI+6.1%	29,859	CPI+6.1%
Convertible bonds (Dollar-linked)	16,646	**Libor + 2.5%	24,686	**Libor + 2.5%	32,232	**Libor + 2.5%
Convertible bonds (Euro-linked)	0	-	1,955	***8.13%	3,709	***8.13%

** Six-month Libor, *** From May 2006

As of the date of this report, the Company has current credit facilities (excluding the credit for financing the acquisition of the Company's rights in the Company's Floors as detailed below) totaling some NIS 7.9 million, of which about NIS 60,000 have been utilized as of December 31, 2008, primarily in connection with the provision of bank guarantees to secure the Company's liabilities under agreements in the Systems sector as aforesaid. As of the date of this report, NIS 60,000 were utilized primarily in connection with the provision of bank guarantees to secure the Company's liabilities under agreements in the Systems sector, as detailed above. Since December 31, 2008, the Company has not taken loans in a substantial amount. In accordance with the terms of one credit facility out of these facilities from a bank in Israel (amounting to some NIS 5 million), the Company has undertaken neither to create nor to undertake to create pledges on its assets without this bank's consent, so long as this bank is due any payments on account of such credit. This credit facility is only up to December 31, 2008, unless the bank agrees otherwise. Although, as of the date of this report, the Company is unaware of any specific limitation, there is no certainty that these credit facilities will be renewed or that the Company will be provided with substitute credit facilities, under similar terms or at all. Additionally, pursuant to the credit documents signed between the Company and part of the banks in Israel, the bank's consent is required in the event of certain changes in the Company's shareholders.

In July 2006, the Israeli Institute for Accounting Standards published Accounting Standard No. 29 "Adoption of International Financial Reporting Standards (IFRS)" (Hereinafter: the "**Standard**"). Pursuant to the Standard, the Company is required to include in a note to the annual financial statements as of December 31, 2007, the balance sheet data as of December 31, 2007 and the income statement data for the year then ended, once the recognition, measurement and presentation rules of the IFRS have been applied thereto.
The impact of transition to reporting under IFRS on fixed asset items is described in section 2.000 in the Board of Directors' Report, and set forth in note 31 to the Company's financial statements.

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

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

Under the terms of the New Credit Facility from Bank Leumi, the repayment of the loans will be spread over a period of 12 years from the date of the loan for the entire amount (as compared to the Previous Credit Facility, for which half the amount was due for

payment in July 2006, and the remainder for payment within 10 years), plus interest at the rate of Libor + 2.02% (as compared to Libor + approx. 2.50% under the Previous Credit Facility).

The remaining debt payable to Bank Leumi as of December 31, 2008 for the New Credit Facility is about NIS 8,132,000.

1.16.3 In the framework of financing for the purchase of the Company's Floors, on August 22, 2000 the Company pledged, in favor of the Industrial Development Bank, by a first ranking fixed and floating charge, its rights in the Unitronics House, documentary instruments and securities deposited and/or to be deposited at the Industrial Development Bank, as well as rights to guarantee funds, pursuant to the Sale Law (Apartments) (Securing Investments of Apartment Purchasers), 5735-1974.

On December 28, 2005, the pledges registered in favor of the Industrial Development Bank as aforesaid, to secure repayment of the debt under the Previous Credit Facility were cancelled. On February 12, 2008, the Company's Board of Directors approved the signing of a deed of pledge, a power of attorney in favor of Bank Leumi and in favor of Airport City, and irrevocable instructions to the Israel Lands Administration, all for the purpose of registering a lease right in the Company's name and registering the new pledge as aforesaid.

On May 1, 2008, the Company signed a deed of pledge and assignment of contractual rights by way of a lien in favor of Bank Leumi, for securing the loans from Bank Leumi. In the wake thereof, the first-ranking pledge and the assignment of the Company's rights to Airport City, by way of a lien, was removed on April 29, 2008, and instead, two first-ranking pledges were created on May 1, 2008, on contractual rights under the lease agreements signed between the Israel Lands Administration and the Company, which were registered on June 16, 2008.

The trustee for holders of the Bonds (Series 1) issued by the Company under the 2004 Prospectus (see Section 1.19.4 below) has given his consent to the above changes in collateral provided by the Company for securing repayment of the New Credit Facility.

1.17 Taxation

1.17.1 Tax benefits under the Encouragement of Capital Investments Law, 5719-1959 (in this section: the "**Law**"): The Company is entitled to various tax benefits under the Law by virtue of its status as an "Approved Enterprise", as follows:

(a) In June 2000 the Company received approval for an investment plan under an alternative track from the Investments Center, the essence of which is an investment totaling $108,000 for expansion of the Company's plant for production of PLCs, subject to the terms of the approval (in summary, at least 30% of the investments in fixed assets to be financed by additional paid-up share capital, implementation of a marketing plan detailed in the Company's letter, including maintenance of sales volumes under the same plan, compliance with intellectual property laws and submission of reports to the Investments Center and to the tax assessing officer as required by law). In December 2001, the Company received approval for a

supplement to this plan in the sum of $257,000, such that investments in the plan would total approx. $ 365,000. The deadline for implementation of the plan was June 2002, and was then extended to September 2002. A final execution report was submitted in April 2003. In February 2004, the Company received a confirmation of the plan's implementation, certifying that it had complied with the plan's terms, except for the marketing terms during the years 2001-2003. The Company estimates that, by the time the benefit under the plan becomes relevant, it will also meet the terms of the marketing plan.

(b) In January 2003 the Company received approval for another investment plan under an alternative track, the essence of which is an investment in the amount of $683,600 for expansion of the Company's plant for production of PLCs, subject to compliance with the terms of the approval (in summary, at least 30% of the investments in fixed assets to be financed by additional paid-up share capital, compliance with intellectual property laws and submission of reports to the Investments Center and to the tax assessing officer as required by law). The approved deadline for implementation of the plan was up to January 2005. In August 2005, the Company submitted a final execution report for this plan. According to the report, the requested year of operation (the base year for the benefits period) is 2004, and the Company reported that it had implemented by the end of 2004 cumulatively, the entire actual investments program (approx. 99%), of a total of approx. NIS 1,257 thousand, in manufacturing equipment only. The Company further reported that during 2004 it had increased its revenues by approx. NIS 20 million as compared to 2003 (a growth rate of approx. 38%, according to VAT reports). In September 2005, following an audit made at the Company, the Company received confirmation from the Engineering Department regarding the execution of investments during the period. In March 2006, the Company received confirmation of the execution of the approved plan in the alternative track, whereby it had complied with the program terms except for the marketing terms in 2004. The Company estimates that, by the time the benefit under the plan becomes relevant, it will also meet the terms of the marketing plan.

(c) The base year for the benefits period under the first plan is 1999 and for the second plan - 2004. As of the date of the report, the benefits under either the first or second plan have not yet been utilized.

Subject to the aforesaid, as of the date of this report, the Company has met its liabilities to the Investment Center.

(d) The benefits to the Company under the Law are primarily a reduced tax rate: during the benefits period (7 years from the year in which the Company first has taxable income from the Approved Enterprise), the Company's income from the Approved Enterprise is exempt from corporate tax for the first two years and subsequently, its income from the Approved Enterprise will be subject to corporate tax at a rate of 25% (or less, according to the rate of foreign holdings in its shares), provided that 14 years have not elapsed since the issue of the letter of approval or 12 years have not elapsed since the year of operation, whichever is earlier. Tax benefits will apply to incremental sales relative to the turnover in the base year. Dividends paid within the benefit period out of funds attributed to the Approved Enterprise are subject to a

reduced tax rate of 15%. In cases where a cash dividend is paid out of Company revenues arising from the approved plan for which the Company was entitled to a 0% tax rate, the Company shall be subject to corporate tax at a rate of 25% of dividends paid.

1.17.2 Measuring results for tax purposes according to the Income Tax Ordinance (Adjustments for Inflation), 5745-1985 (in this section: the **"Adjustments Law**"): In accordance with the Adjustments Law, up to the end of 2007 the results for tax purposes were measured, adjusted for CPI changes.

In February 2008, the Knesset passed an amendment to the Income Tax Ordinance (Adjustments for Inflation), 5745-1985, limiting the applicability of the Adjustments Law, starting from 2008 and onward. Beginning in 2008, the results for tax purposes are measured in nominal values, except for certain adjustments in respect of changes in the consumer price index during the period until December 31, 2007. The amendment to the ordinance includes, inter alia, cancellation of the addition and deduction due to inflation and the additional deduction in respect of depreciation, starting from 2008.

1.17.3 The Encouragement of Industry (Taxes) Law, 5729-1969: The Company is an "industrial Company" as the term is defined in the above law. By virtue thereof, the Company is entitled to tax benefits such as the deduction of issue expenses for tax purposes when listing shares on the stock exchange and the deduction of patents and knowledge acquired from third parties. The subsidiary, Unitronics Inc., is subject to taxation under US tax laws and is therefore not eligible for benefits under the Encouragement of Industry (Taxes) Law, 5729-1969. The subsidiary is subject to federal tax at a rate of 35%; the state tax imposed on the subsidiary (in the state of Massachusetts) is at a rate of 9.5%.

1.17.4 Tax rates on income not derived from the "Approved Enterprise": Company revenues not derived from the Approved Enterprise as aforesaid, and revenues of the subsidiary, Unitronics Management, are subject to tax at the ordinary rate of 28% (2009 - 26%, , 2010 and thereafter - 25%).

1.17.5 Tax Assessments: The Company has tax assessments which are considered final up to and including the tax year 2004. No final tax assessments have been issued yet for the subsidiaries Unitronics Management and Unitronics Inc. since the date of their incorporation.

1.17.6 Carry forward losses: The balance of the Company's carry forward losses for tax purposes as of December 31, 2008 amount to about NIS 31 million. No deferred taxes have been recognized in respect of these losses.

1.18 Limitations on and supervision of Company activities

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

1.18.2 Work safety: The Company has a safety officer at its facility, in charge of compliance with the work safety provisions. The Company holds annual training courses for employees of various departments on work safety issues.

1.18.3 Ministry of Defense: the Company is a recognized supplier to the Israeli Ministry of Defense for the manufacture, marketing and service provision in the automated warehouse sector, as of November 25, 2002.

1.19 Material agreements and cooperation agreements

1.19.1 The agreements listed above: The agreements listed in sections 1.4.1, 1.4.6, 1.9.12.3, 1.10.9 and 1.14.4 above are material agreements of the Company. In addition, the agreements detailed in section 1.19.1 are material agreements of the Company.

1.19.2 Acquisition of Company rights in Company Floors at Unitronics House and financing of the acquisition: On July 23, 2000 the Company entered into an agreement concerning the purchase of rights in certain floors in the Unitronics House, as detailed in section 1.12.1 above, under the financing terms specified in sections 1.16.2 and 1.16.3 above.

1.19.3 Underwriting agreement (2004 Prospectus): The Company entered into an underwriting agreement on May 11, 2004, regarding the securities offered by the Company under the 2004 Prospectus. The underwriting agreement formalized the underwriters' obligations with respect to the distribution and underwriting of the securities and their commissions (and expense reimbursement), which totaled approx. NIS 4,172 thousand. Pursuant to the agreement, the Company has undertaken to indemnify the underwriters for any amount they may be charged under a court ruling or settlement to which the Company has agreed (and the expenses thereof), due to the inclusion of a misleading detail in the prospectus, including anything likely to mislead a reasonable investor or due to the deficiency of any detail in the prospectus that is likely to be important to a reasonable investor, or as a result of any claim the grounds for which arise or derive from the prospectus, save information provided to the Company in writing by an underwriter to be used for the preparation of the prospectus.

1.19.4 Bonds (Series 1): The Company issued under the 2004 Prospectus, NIS 35,000,000 par value registered bonds (series 1), of NIS 0.02 par value each of the Company, payable (principal) in 4 equal annual installments on May 23 of each of the years 2007 through 2010 (inclusive), linked (principal and interest) to the representative rate of the US dollar (of not less than NIS4.59 per dollar) and bearing interest at a variable rate of LIBOR (for a period of 6 months) + 2.5% per annum. The bonds are convertible into Ordinary Shares on any trading day up to May 9, 2010 (inclusive), save from the 10th to the 23rd of May of each of the years 2007 to 2009, such that any non-paid-up NIS 9.00 par value bonds (Series 1) are convertible into one Ordinary Share of the Company (subject to adjustments). The bonds (Series 1) were issued under the 2004 Prospectus at 95% of the par value thereof.

On May 12, 2004 the Company contracted with Deloitte Touche (Israel) Brightman Almagor Trusts Ltd. (hereinafter – the **"Trustee"**), as trustee for the bonds offered under the 2004 Prospectus. The trust deed includes provisions as to the Company's refraining from creating additional charges on its assets beyond the existing ones without the

trustee's consent, the trustee's authority concerning waiver, settlement, amendments to the trust deed, declaring the bonds immediately due and payable, convening meetings of bondholders, and concerning the proceedings at meetings of bondholders, voting at such meetings, indemnification of the trustee, replacing the trustee and expiry of the trustee's office.

Following are the trustee's details:

1.	Trustee's name		Deloitte Touche (Israel) Brightman Almagor Trusts Ltd.
2.	Person in charge of series		David Valiano, CPA and/or Adv. Caroline Haim
3.	Contact by:		
	3.1	Telephone	03-6085452
	3.2	Fax	03-6094944
	3.3	E-mail	khaim@deloitte.co.il
	3.4	Mail	1 Azrieli Center, Tel Aviv 67021

On May 24, 2007, the Company published an immediate report stating that the trustee informed the Company that during a routine spotcheck conducted by him, concerning the method of calculating interest in respect of the bonds, he believes that the interest should be calculated, not as the Company had been calculating it (effective interest) (the **"Old Calculation"**), but on the basis of a nominal interest.

Although the Company believes that until publication of the report, its interpretation of the method of interest calculation was reasonable, and taking into consideration the fact that adopting the Trustee's position would not have a material financial effect on the Company, the Company decided to adopt the Trustee's position, change the method of interest calculation in a manner benefiting the bondholders, and calculate it on a nominal basis at a variable annual rate of LIBOR interest (as defined in the 2004 Prospectus) plus 2.5% per annum. The interest will be linked to the US dollar (the "**New Calculation**").

Therefore, starting from May 24, 2007, the interest in respect of this bond has been calculated according to the New Calculation, as aforesaid, including in respect of the period commencing on May 23, 2007, and paid accordingly.

For past periods, for which interest payments have already been made according to the Old Calculation, the Company has been trying since May 2007 to locate the holders of these bonds during those periods, to pay them the interest differences between the Old Calculation and New Calculation, and has been holding discussions and consultations with the Trustee and other relevant entities. These attempts failed to lead to the identity of the specific bondholders during these periods. Therefore, in consultation with the Trustee, the Company, through an announcement put out in two Hebrew-language newspapers in Israel and in an immediate report issued on December 7, 2008, invited the bondholders during these periods to present proof to the Company regarding their holding of said bonds during these periods and to receive the interest differences to which they are entitled according to the New Calculation (see immediate report concerning an event or matter outside the ordinary course of Company business, dated December 7, 2008). The bondholders during these periods or any thereof, were invited to present proof to the Company regarding the very fact of their holding the bonds, and the number of bonds in

their possession at the relevant times or any thereof, and to furnish an address for sending the payment to them, this within 60 days of the date of publication of the immediate report.

As of March 19, 2009, applications were received from the holders of the aforesaid bonds or their representatives, entitling their holders to payment in respect of aforesaid interest differences in a total amount of NIS 30,552. The Company is currently working to transfer the interest differences to those eligible, and is turning these days to certain bondholders with a request to complete necessary details.

Pursuant to the terms of the bond, the Company is required to pay in each defined period, a LIBOR interest, which is defined as a variable interest rate equal to the London Interbank Offered Rate (LIBOR) – on US dollar deposits for a six (6)-month period in the London Interbank Market for Prime Banks, as quoted in the Telerate Page 3750 (hereinafter: the "**Source**"). The interest rate for each period is determined on the first day of each period.

At the beginning of each period, at the TASE's request and although it is not required under the prospectus, the Company publishes the interest rate. From time to time, on the first day of the period in which the Company is required to publish the interest, the LIBOR interest rate quoted in the Source may not be up to date for that day, but only for several days earlier, and therefore only the interest from the out-of-date publication can be quoted. On such occasions, the Source quotes the updated interest rate for that first day at a later time than the first day of the period (hereinafter: the "**Later Date**").

In coordination with the Trustee and the Tel-Aviv Stock Exchange Ltd, the Company issues an immediate report concerning the interest rate on the first day of each period, and adds a statement to this report that "the published rate is the one known to the Company today, and the accurate quote according to the Source will be updated within the next few days, and the Company will publish an amending report if any change occurs". If at the later date there indeed is a change in the interest rate, the Company publishes an immediate report revising the updated interest for the first day of that period, as quoted by the Source, at the later date, while emphasizing that this report revises the interest rate for the period as published in the immediate report published at the beginning of the period.

On January 8, 2009, the Company executed a self-purchase, with the approval of the Board of Directors, outside the stock exchange and not from interested parties, of 300,000 bonds (Series 1) at the price of 9,065 agorot, and for NIS 272,000. Although bonds (Series 1) are convertible bonds, the Board of Directors confirmed to the Company that the purchase of the aforesaid amount will not be considered a distribution, since they can be converted into shares in the amount stated in the most recent adjusted financial statements of the Company, as a short- or long-term liability, in respect of these securities, all as stated in Section 309A of the Companies Law, 5759-1999.
The Board of Directors reasoned the approval of the self-purchase with the argument that the acquisition was an opportunity to carry out an economically profitable transaction, which could improve the state of the Company's cash flow over time (for details, see immediate report on an event or matter outside the ordinary course of Company business from January 8, 2009). In accordance with the Company's prospectus from May 2004,

stating that bonds purchased by the Company would be cancelled and delisted from the stock exchange, the aforesaid purchased bonds were cancelled and delisted on January 20, 2009 (see immediate report on changes in the Company's securities from January 20, 2009).

For further details regarding bonds (Series 1) that are in circulation, see Section 2.10 of this report.

1.19.5 Bonds (Series 2): A series of NIS 34,000,000 par value registered bonds (Series 2), of NIS 0.02 par value each of the Company, bearing interest of 6.1% per annum, linked (principal and interest) to the Consumer Price Index and payable (principal) in 5 equal annual installments on August 25 of each of the years 2009 to 2013 (inclusive). The bonds (Series 2) were issued under the 2006 Prospectus at 94% of their par value.

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

Following are the trustee's details:

1.	Trustee's name		Hermetic Trust (1975) Ltd.
2.	Person in charge of series		Dan Avnon and/or Meirav Ofer-Oren
3.	Contact by:		
	3.1	Telephone	03-5274867
	3.2	Fax	03-5271451
	3.3	E-mail	hermetic@hermetic.co.il
	3.4	Mail	113 Hayarkon St., Tel Aviv 63573 POB 3524, Tel Aviv 61034

On July 15, 2008, the Company published in the name of Hermetic and at its request, that as the trustee for the holders of bonds (Series 2), Hermetic announced that the annual report in respect of the trust's actions carried out by the trustee during the period between August 15, 2006 and July 9, 2008, is available for perusal by the holders of bonds (Series 2) at the trustee's offices (for details, see immediate report on the annual report in respect of the trust's actions, bonds (Series 2) from July 15, 2008).

On January 8, 2009, the Company executed a self-purchase, with the approval of the Board of Directors, outside the stock exchange and not from interested parties, of 7,100,000 bonds (Series 2) at the price of 7,445 agorot, and for NIS 5,286,000.
The Board of Directors reasoned the approval of the self-purchase with the argument that the acquisition was an opportunity to carry out an economically profitable transaction, which could improve the state of the Company's cash flow over time (for details, see immediate report on an event or matter outside the ordinary course of Company business from January 8, 2009). In accordance with the Company's prospectus from May 2006, stating that bonds purchased by the Company would be cancelled and delisted from the

stock exchange, the aforesaid purchased bonds were cancelled and delisted on January 20, 2009 (see immediate report on changes in the Company's securities from January 20, 2009).

For further details regarding bonds (Series 2) that are in circulation, see Section 2.10 of this report.

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

1.20 Legal Proceedings

1.20.1 Dispute with Samy Gharb

In January 2006, the Company, through its counsel in the United States, filed a claim in a US federal court against a private individual who approached the Company and several distributors of the Company in the United States and in Europe with claims that by marketing the Company's products they were infringing a registered patent of his. In this claim Unitronics petitioned the court to declare the defendant's registered patent in the United States invalid and that Unitronics' actions do not infringe the defendant's intellectual property rights. Unitronics in addition claimed from the defendant a sum of not less than US$ 1 million in respect of damages incurred due to the defendant's actions, chiefly his applications to Unitronics' distributors in the United States. The defendant did not submit a statement of defense within the stipulated time, but rather submitted a written response to the court, which decided to regard said letter as a response and statement of defense. In light of this fact and despite the Company's request that the court rule in its favor (in the absence of defense) – the court decided to continue with the proceedings. In a conference call hearing held on June 2, 2006, it was ruled that the case should progress to the discovery phase. In a further conference call hearing held on November 3, 2006, the defendant was required to submit documents and information in an orderly manner, no later than December 20, 2006. Towards the end of this period, the defendant submitted a letter in German to the court. On December 22, 2006, the court ruled that court translation services were unavailable for civil proceedings, and that the defendant should translate his letter into English no later than January 22, 2007. The defendant submitted several documents after this date. On February 1, 2007, Unitronics filed its response, claiming

that the documents presented by the defendant do not prevent the court from granting Unitronics' claim.

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

On October 24, 2007, the defendant submitted a document to the court, which the court classified as a "request for review of the decision". On November 1, 2007, the Company filed several claims against the defendant, essentially asking the court to prohibit the defendant from intervening in the Company's contractual relations with its clients and suppliers, and a request that a declaration of the invalidity of Gharb's patent shall not impair the Company's rights to additional proceedings, in addition to a request to reject Gharb's request for review of the court's decision.

On January 30, 2008, the court ruled that Gharb is to immediately and permanently desist from making threats and assertions of infringement in respect of matters the subject of the above lawsuit; that he is to refrain from filing suit regarding the abovementioned patent, against Unitronics or any of its customers in respect of the manufacture, use, sale, offers to sell, or import of PLCs; and finally, that he is to refrain from interfering with the contractual relations between Unitronics and its customers as regards the abovementioned patent.
The court also rejected Gharb's application for any payment, and ordered the case closed.

On June 11, 2008, Gharb filed an "Application for Payment" with the court, an application the judge deemed to be a notice of appeal, and therefore, on July 1, 2008, the appeal was registered and referred for handling to the United States Court of Appeals for the Federal Circuit. In the framework of his appeal, Gharb submitted documents and a letter of appeal, and was required to pay a court fee by June 14, 2008. On July 11, 2008, the Company filed with the court documents required in the framework of the appeal, and following delays, Gharb paid the court fee in September.

On September 19, 2008, Gharb submitted an informal summation document, which the court consented to accept. On October 9, 2008, the Company filed its informal response to the document. In its response, the Company contended that there was no need to hold an oral hearing in the case at hand. On October 21, 2008, the court ruled that there was no room to hold an oral hearing and that a panel of 3 judges would hear the appeal on December 2, 2008.

On November 5, 2008, Gharb filed an additional summation document with the Court of Appeals (a copy of which was not given to the Company). The court clerk refused to accept this document.

On December 3, 2008, the Court of Appeals upheld the court's decision, stating that Gharb is to permanently desist from raising claims against the Company or any of its customers, in all pertaining to infringement of the aforesaid patent.

On January 8, 2009, Gharb filed an application for a further hearing, which was rejected by the Court of Appeals on February 19, 2009.

With this, the proceedings in this case have come to an end, unless Gharb appeals to the U.S. Supreme Court.

1.21 Subsidiaries

1.21.1 **Unitronics House Management and Maintenance (2003) Ltd.**

1.21.1.1 Overview

Unitronics House Management and Maintenance (2003) Ltd. ("**Unitronics Management**") was incorporated on April 29, 2003 as a wholly-owned subsidiary of the Company.

Unitronics Management has engaged, since March 2004, primarily in providing maintenance, upkeep and similar services in connection with the use of Unitronics House (part of which is leased by Unitronics, and part by interested parties in Unitronics as per section 1.12 in this report). As per the resolution of the Company's Audit Committee and Board of Directors in May 2003, Unitronics Management provides maintenance and upkeep services for the remainder of Unitronics House as well, which are not used or leased by the Company, provided that: (a) Unitronics Management will offer the same terms to all tenants at Unitronics House as those provided by other management companies in the area; and (b) the impact of provision of such services on Unitronics' profits, assets or liabilities will remain non-material. By decision of Unitronics' board of directors, any deviation from the above decisions will require approval by Unitronics' board of directors, as well as any other approval required by law.

Unitronics Management operates from Unitronics House with no offices, assets or employees of its own. Unitronics Management operates via Unitronics' managers and staff, using Unitronics' assets, with all the building's tenants paying for the Company's services according to a charge rate index applying equally to all, whereby payment is proportional to the area used by each tenant. For details of services provided by Unitronics Management and fees charged by it (which are in non-material amounts for the Company), see sections 1.11 and 4.4 in this report.

1.21.1.2 Issued and paid-up capital, Company's share

As of the date of this report, the registered capital of Unitronics Management is NIS 100,000, divided into 100,000 Ordinary Shares of NIS 1 par value each, 1,000 shares of which have been issued and are all held by the Company.

1.21.1.3 The cost of Unitronics Management shares to the Company and their price as recorded in its books

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

1.21.1.4 Loans, credit, guarantees, investments in the Company

As of the date of this report, Unitronics Management has no debts to the Company, and the Company has issued no guarantees in favor of Unitronics Management, except for current debts in the ordinary course of business and in immaterial amounts.

Also, as of the date of this report, the Company has made no investments in Unitronics Management.

1.21.1.5 Holders of 25% or more of the equity

As of the date of this report, and since its incorporation, Unitronics Management is wholly owned and controlled by the Company.

1.21.1.6 Management fees, interest, dividend and other payments from Unitronics Management

For the periods reported in this report, Unitronics Management has not paid and has not undertaken to pay the Company any management fees, interest or dividend payments other than reimbursement of expenses in immaterial amounts.

1.21.1.7 Directors and senior officers at Unitronics Management

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

Unitronics Management has no appointed CEO; Mr. Haim Shani, who is the Company's CEO and chairman of the board of directors, also serves, in effect, as the senior officer of Unitronics Management.

1.21.1.8 Profits / (losses) of Unitronics Management

As of December 31, 2008 the cumulative loss of Unitronics Management is about NIS 70,000.

1.21.2 **Unitronics Inc.**

1.21.2.1 Overview

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

Unitronics Inc. is primarily engaged in marketing and distribution activities for the Company in the USA, operating a network of about 80 distributors across most of the United States. Unitronics Inc.'s offices are near Boston, Massachusetts in the USA. It has five employees, engaged primarily in coordination and support of marketing activities by Company distributors in the USA.

1.21.2.2 Issued and paid-up capital, the Company's share

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

1.21.2.3 The cost of Unitronics Inc shares to the Company and their recorded price in its books

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

1.21.2.4 Loans, credit, guarantees, investments in the Company

The capital deficit of Unitronics Inc., as of December 31, 2008, is approximately NIS 6,420,000. The current debt owed by Unitronics Inc. to the Company amounts to NIS 12,209,000 as of December 31, 2008.

1.21.2.5 Holders of 25% or more of capital

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

1.21.2.6 Management fees, interest, dividend and other payments from Unitronics Inc.

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

1.21.2.7 Directors and senior officers at Unitronics Inc.

Haim Shani serves as single director and president of Unitronics Inc. For details on the division of Mr. Shani's salary between the Company and Unitronics Inc., see section 4.7.2 of this report.

1.21.3 **Profit (Loss) before and after tax, dividend, management fees and interest income from subsidiaries**

	For the year ended December 31, 2008		**For the year ended December 31, 2007**		**For the year ended December 31, 2006**	
	Unitronics House Management and Maintenance (2003) Ltd.	Unitronics Inc.	Unitronics House Management and Maintenance (2003) Ltd.	Unitronics Inc.	Unitronics House Management and Maintenance (2003) Ltd.	Unitronics Inc.
In NIS thousands						
Profit (Loss) Before Tax	(13)	(490)	(111)	(1,916)	(25)	(781)
Profit (Loss) After Tax	(13)	(490)	(111)	(1,916)	(25)	(781)
Dividend	0	0	0	0	0	0

Management Fees	0	0	0	0	0	0
Interest Income	0	0	0	0	0	0

1.21.4 Inactive subsidiaries:

In addition, the Company holds 100% of the issued capital of Unitronics Industrie Automation GmbH, a company registered in Germany, as well as 30% of the issued capital of Unitronics S.A. (Proprietary) Limited, a company registered in South Africa. These companies have been inactive for several years and have no assets, employees or liabilities (for details see section 1.2 above).

1.22 Discussion of risk factors

Listed below are risk factors that impact the Company (in both the products and systems sectors) and Company management’s estimate of the degree to which they impact the Company's business:

Type of Risk	Nature of Risk	Evaluation of extent of impact on the Company
Macro Risks	*Exposure to volatility in the markets:* The Company is exposed to changes in general factors affecting the main markets in which it operates, such as the slowdown in business activity in Israel and worldwide and the effects of security-related events in Israel and globally.	High
	Exposure to the effects of the global economic crisis: The Company is exposed to the effects of the global economic crisis that started in the second half of 2008 and to its possible outcomes, including, among others, a possible slowing in the purchase rate of control products and/or a possible slowing of the rate of project starts, including logistics projects.	High
	Exposure to interest risks: The Company is exposed to changes in prime and LIBOR interest rates in connection with various loans as detailed in sections 1.16 and 1.19.4 above.	High
	Currency exposure: The Company is exposed to changes in the exchange rates of the US$ and the Euro. See section 2.3	Medium
	Exposure to investment in negotiable securities: The Company is exposed to changes in the prices of securities in which a material portion of its financial means is invested. See section 2.3	Medium
	Exposure to strikes at Israel's ports: Strikes at Israel's seaports and/or airports could delay imports of raw materials used by the Company (including components of logistics systems) and/or exports of the Company's products overseas, thereby compromising delivery dates to which the Company has committed, which in turn can entail expenses and/or harm the Company's reputation.	Low
Sector Risks	*Competition:* The Company is exposed to competition from entities with resources and reputation that surpass those of the Company, as detailed in sections 1.9.7 and 1.9.14 above (with regard to the products sector) and in sections 1.10.7.2 and 1.10.12 above (with regard to the systems sector).	High
	Development of new technologies and/or products: The Company is exposed to risks related to development of new products and/or technologies whose successful development and/or marketing are uncertain, as detailed in section 1.9.10 above.	Medium
	Standards: The Company is exposed to risks arising from noncompliance of its products or services with specific standards, as detailed in sections 1.9.22, 1.9.23 and 1.10.19 above.	Medium
	RoHS and WEEE Directives: The Company is exposed to risks arising from potential noncompliance of its products or services with the requirements of the European directives, as detailed in sections 1.9.22 and 1.9.23 above.	Low
	Raw materials: The Company is exposed to risks arising from possible temporary worldwide shortages in electronic components and from limited allocations of components (allocations and conformity with the RoHS directive) by component manufacturers in certain cases of surplus demand, as detailed in sections 1.9.20 and 1.9.22 above.	Low
Company-specific Risks	*Principal customers:* Material parts of the Company's revenues originate from a limited number of principal customers that enter into material transactions of a onetime nature with the Company, as detailed in sections 1.9.12.3 and 1.10.9 above.	Medium
	Dependency on the Israeli market: The Company's activity in the Systems sector is dependent on the Israeli market, which tends to be affected by the aforesaid macro and sector risks more than markets overseas, and in which the demand for projects is lower than the demand in corresponding markets overseas.	Medium
	Dependency on founder and controlling shareholder: The Company is materially dependent upon the continued services of Mr. Haim Shani, as detailed in section 1.14.4A above.	Medium

	*Leverag*e: The Company has liabilities in respect of the repayment of loans due, among others, to the issue of bonds (Series 1) under the 2004 Prospectus and in respect of a loan for the acquisition of Unitronics floors (as described in section 1.16.2). After the issue of bonds (Series 2) under the 2006 Prospectus, the Company's liabilities in respect of repayment of external loans have increased. The Company's Board of Directors determined in its decision that the Company's cash flow is robust and that the Company is able to meet its obligations, including repayment of the loans in respect of the issuance of bonds (Series 1) and (Series 2). However, should the Company's assessments regarding its financial robustness prove erroneous, and should the Company fail in the investment of said loan funds, there is concern, though improbable, that the Company might not be able to fulfill the terms of repayment of the aforementioned loans. Furthermore, there is no certainty that the use of loan funds (for the development of Company business) will produce the desired results, which could make it more difficult for the Company to meet the terms of loan repayment in the future, notwithstanding its financial robustness. The Company's liabilities in respect of repayment of external loans amount to a total of approximately NIS 58 Million.	Medium
	Unregistered intellectual property rights: The Company maintains intellectual property which is not registered (although the Company also has registered certain intellectual property rights). The Company is exposed to risks that stem from the non-registration of such intellectual property rights, in respect of which applications were filed but not yet executed (for details see sections 1.9.10.1, 1.13.2 and 1.13.3) and from intellectual properties that have not been filed for registration.	Low
	Low share prices and trading volumes: The Company's shares are traded on the stock exchange in Belgium at prices significantly lower than the price offered to the public in 1999 (€ 3.72), and on the Tel Aviv Stock Exchange at prices lower than the price offered to the public in May 2004 (NIS 7.55 per share). There is no certainty that the price of the Company's shares on the stock exchange will not continue to decline. Furthermore, the trading volumes in the Company's shares on the stock exchanges in Belgium and in Tel Aviv are usually low and dissimilar, which has an adverse effect on their tradability.	Low
	Absence of arbitrage on the stock exchanges in Israel and Belgium: Although the Company's shares are traded on the EuroNext Stock Exchange in Belgium and on the Tel Aviv Stock Exchange, at this stage there can be no parallel trading in the Company's shares on these two stock exchanges in real time. In these circumstances, gaps arise from time to time in the share prices on these stock exchanges. There is no certainty that these gaps will diminish. Such gaps are liable to cause damage to investors in the Company's securities, as well as to the Company itself in certain circumstances.	Low

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

2.1 Summary of quarterly income statements (Reg. 10A)

	NIS in thousands				
	1-3/2008	4-6/2008	7-9/2008	10-12/2008	1-12/2008
Revenues	18,276	21,698	19,380	20,366	79,720
Cost of revenues	11,378	14,992	13,283	14,103	53,756
Gross income	6,898	6,706	6,097	6,263	25,964
R&D expenses, Net	374	417	506	320	1,617
Sales and marketing expenses	2,903	3,059	3,146	3,341	12,449
General and administrative expenses	1,465	1,342	1,123	1,180	5,101
Income from ordinary operations	2,165	1,888	1,322	1,422	6,797
Net financing expenses	1,675	1,423	4,614	2,031	9,743
Income (loss) for the period	490	465	(3,292)	(609)	(2,946)

2.2 Explanations to the financial statements (Reg. 10)

2.2.1 General

The Company engages, via the Products Department, in the design, development, manufacture, marketing and sale of industrial automation products, mainly PLCs, and via the Systems Department, in design, construction and maintenance services within the framework of projects for automation, computerization and integration of computerized production and/or logistics systems, mainly automated warehouses, automatic parking systems, and distribution centers. The Company's PLCs are being distributed through over one hundred and forty distributors (and a wholly-owned subsidiary) in fifty countries throughout Europe, Asia, America, Australia and Africa, and the services of the Systems Department were provided until recently mainly to customers in Israel, and in a few cases, also outside of Israel. In the past year and concurrently with the Company's activity in Israel in the Systems sector, the Company continued to examine possibilities for strategic collaborations outside of Israel (in the first stage primarily in the USA), with the goal of developing additional markets for the services of the Systems Department.

2.2.2 Major events during the reported period and up to its publication

Changes to economic environment and implications of the crisis in the capital markets

Currently, global markets are undergoing a financial crisis. Events linked to this financial crisis impact the capital market in Israel, including the liquidity, business standing and capacity of corporations in Israel to obtain financing for their current and long-term operations. In addition to the global financial crisis, several other developments occurred in Israel's economy over the past two years, including significant fluctuations in exchange rates of major foreign currencies against the NIS as well as higher inflation rates in the local economy.

The financial crisis in the capital market impacts the Company's financing expense and revenue items, primarily due to erosion of Company revenues from negotiable securities; hence the impact on its operating results in the reported period and subsequently. For further details, see financing revenues and expenses under description of operating results, as well as details with regard to Company exposure and steps related there to, under the qualitative report on market risk in the Board of Directors' report below.

Fluctuations in exchange rates of major foreign currencies against the NIS primarily impact the Company's financing expense and revenue items, mostly due to erosion of Company revenues from negotiable securities linked to these currencies, hence the impact on the Company's operating results in the second half of 2008 and subsequently. For further details, see financing revenues and expenses under description of operating results, as well as details with regard to Company exposure and steps related there to, under the qualitative report on market risk in the Board of Directors' report below.

The higher inflation in the local economy impacts the Company's financing expense and revenue items, primarily due to revaluation of debentures (Series 2), which are linked to the Consumer Price Index - as per the Company prospectus dated August 2006. For further details, see financing revenues and expenses under description of operating results, as well as details with regard to Company exposure and steps related there to, under the qualitative report on market risk in the Board of Directors' report below.

Effects of the financial crisis on global markets have caused, and may continue to cause weaker demand for Company products and services, slower Company growth rate and higher volatility in factors impacting its results, such as exchange rates, cost and availability of customer and supplier credit in the various markets in which it does business, etc. For further details, see revenue items and analysis by operating segment.

The global uncertainty and instability of financial markets may have a material impact in the near term, but the Company, as of the date of approval of these financial statements, is unable to assess the expected impact of the aforementioned events or the duration of the aforementioned effects.

Payment for EuroNext debentures

On February 7, May 7 and August 5 of 2008, the Company made the 8th, 9th and 10th payments, respectively, out of 10 principal and interest payments for these debentures (for further details see immediate reports of debenture payments (Series 5/04) dated February 7, May 7 and August 6 of 2008).

Following the aforementioned payments, there are no outstanding debentures left in this series.

Payment for debentures (Series 1), expiration of option warrants (Series 1)

On May 23, 2008, the Company made the second payment of principal and interest on debentures (Series 1), issued by the Company in 2004 pursuant to the Company's prospectus dated May 12, 2004. Furthermore, on May 25, 2008, Company option warrants (Series 1), allotted pursuant to the aforementioned prospectus) expired (for further details please refer to immediate report regarding payment for debentures and option expiration, dated May 25, 2008). Following these payments, there remain in circulation NIS 17,500,000 par value debentures of this class convertible into 1,944,444 Company shares, in accordance with the terms of those debentures (for further details see the Immediate Report concerning a change in the Company's Securities, dated May 25, 2008).

Subsequent to publication of this report, on May 23, 2008, the Company is expected to make the third principal payment for debentures (Series 1) as well as an interest payment for the same.

On January 8, 2009, the Company bought back, as approved by the Board of Directors, off the stock exchange and not from interested parties, 300,000 debentures (Series 1) at a price of NIS 90.65 in exchange for NIS 272 thousand.

Subsequent to the aforementioned buy-back, there remain NIS 17,200,000 par value debentures of this series in circulation, convertible into 1,911,111 Company shares under terms and conditions of said debentures (see details below on buy-back of debentures (Series 1) and debentures (Series 2) of the Company, as well as an immediate report on change to corporate securities dated January 8, 2009).

Annual report with regard to trustee actions, debentures (Series 2)

On July 15, 2008, the Company informed on behalf of and at the request of Hermetic Trustees (1975) Ltd. (hereinafter: "**Hermetic**"), that as trustee on behalf of holders of debentures (Series 2), Hermetic hereby announced that the annual report of trustee actions carried out by the trustee in the period between August 15, 2006 and July 9, 2008 is available for viewing by holders of debentures (Series 2) at the trustee's office (for further details see immediate report regarding annual report of trustee for debentures (Series 2) dated July 15, 2008).

Buy-back of company shares

Commencing August 2005, the Company, from time to time, has been buying back Ordinary Shares of the Company, within the framework of trading on the Tel Aviv Stock Exchange and on the EuroNext Stock Exchange in Belgium. As of the reporting date, the Company holds a total of 664,880 shares that were purchased as aforementioned (out of 11,676,546 Ordinary Shares in the Company's issued share capital). For as long as the Company holds these shares, they constitute "dormant shares" as defined in the Corporate Act, 1999. For further details with regard to these purchases, see section 1.4.2 of this report as well as immediate reports issued by the Company from time to time with regard to these purchases starting on August 18, 2005.

Changes in holding stakes of interested parties

Due to the aforementioned debenture payments and share buy-back by the Company as set forth above and below, and due to expiration of employee stock options, the holding stake in the Company of Mr. HAIM SHANI, Company CEO and controlling shareholder, have increased. Mr. SHANI's holding stake after these changes is: 55.49% of capital and 59.39% of voting rights (and fully diluted after the change: 44.57% of capital and 47.47% of voting rights). For further details see section 1.4.6 of this report as well as the immediate report on holding stakes of interested parties and senior officers, dated March 17, 2009.

UNITRONICS House – Lease from the Israel Land Administration

The Company leases the ground floor (including basement) and first floor (hereinafter – "the Company's Floors") in the building called "UNITRONICS House", covering an area (excluding basement) of 1,600 m^2 gross, formally known as part of block 6832, parcel 27 (after an initial sub-division of the lot marked #3 on the zoning plan known as GZ/MK/1566/1), at the address: Airport City, P.O.B. 300, Ben Gurion Airport, 70100, Israel (hereinafter – "UNITRONICS House"). The Company also leases an additional lot of 1,000 square meters adjacent to UNITRONICS House, serving as a parking area for the Company's employees and visitors.

Under an agreement from August 23, 2000 with Airport City Ltd. (hereinafter: "Airport City"), the Company acquired a capitalized leasing right (91%) to the Company's floors for a 49 year term. On April 16, 2008, the leasing contracts for UNITRONICS House were signed by the Israel Land Administration. The Company is acting to have UNITRONICS House registered as a condominium at the Land Registry Bureau. (For further details see section 1.12.1 of this report.)

In conjunction with the financing agreement for acquisition of Company floors, between the Company and the Industrial Development Bank ("the previous credit facility") (for further details, see section 1.16.3 of this report), the Company pledges to the Industrial Development Bank on August 22, 2000 – under senior fixed and floating liens – its rights to UNITRONICS House, documentary notes and securities deposited and/or to be deposited with the Industrial Development Bank, as well as rights to funds under guarantees pursuant to the Sale Act (Apartments) (Securing Investment of Apartment Buyers), 1974.

On December 28, 2005 the pledges registered in favor of the Industrial Development Bank, as stated above, to secure repayment of the debt under the Previous Credit Facility, were cancelled. Concurrently with the cancellation of the aforementioned pledges, Bank LEUMI has registered a new pledge in its favor under similar terms as the pledges cancelled, as security for repayment of the debt according to a new credit facility which the Company received from Bank LEUMI and which served to repay the Previous Credit Facility (the "New Credit Facility") (for further details see Section 1.16.3 of this report). On February 12, 2008 the Company's Board of Directors approved the signing a deed of pledge, a power of attorney in favor of Bank LEUMI and in favor of Airport City, and an irrevocable letter of instructions to the Israel Lands Administration, all in purpose of registering a lease right in the Company's name and registration of the new pledge for securing repayment of the New Credit Facility as aforesaid.

On April 16, 2008, the Israel Land Administration signed the lease contracts for UNITRONICS House, and the Company received from Airport City consent to return to the bank guarantee letters issued to the Company pursuant to the Sale Act, with the intention to have them cancelled in conjunction with recording a pledge to Bank LEUMI, as set forth above, and the Company did sign on May 1, 2008 the mortgage note and assignment of contractual rights by means of a pledge to benefit Bank LEUMI – to secure the loans from Bank LEUMI. Subsequent to the above, on April 29, 2008 the senior mortgage and assignment of Company rights by means of a pledge to Airport City were removed, and in lieu, on May 1, 2008, two senior mortgages were created with regard to contractual rights according to lease agreements signed by the Israel Land Administration and the Company, which were recorded on June 16, 2008.

Changes in remuneration of independent Board members pursuant to amendments to Corporate Regulations

On May 21, 2008, the Company Board of Directors resolved to update the annual remuneration and attendance fees for independent members of the Company Board of Directors, effective starting on March 6, 2008, to be NIS 25,000 and NIS 1,590, respectively. Furthermore, the Board of Directors resolved that this update would also apply to remuneration paid to another Board member who serves on the Board of Directors but is not an independent Board member (but neither is he an interested party, other than by virtue of serving as a Board member), who prior to this update was paid an annual remuneration and participation remuneration equal in amount to those paid to independent Board members of the Company; the Board of Directors and the Audit Committee saw the decision to approve the increase in remuneration for said Board member as continued application of previous policy, whereby all Board members of the Company (except for controlling shareholders) were remunerated equally to remuneration paid to independent Board members – based on the belief that this policy strikes a proper balance between the Company's right, under certain conditions, to provide higher remuneration to those who are not independent Board members compared to remuneration of independent Board members, and that such remuneration constitutes appropriate payment for the services of said Board members (for further details see immediate reports regarding a transaction with a controlling shareholder or with a Board member which is not subject to approval by the General Meeting, dated May 21, 2008).

Exercise of option to extend lease agreement at UNITRONICS House

Starting in August 2004, the Company leases from a company controlled by Mr. HAIM SHANI, the Company's Chairman and CEO (hereinafter: "the lessor") some 196 m^2 of office space in UNITRONICS House, in addition to 1,600 m^2 in UNITRONICS House to which the Company owns direct rights (for further details about Company facilities, see section 1.12.1 of this report). On August 11, 2005, the Company's Audit Committee and Board of Directors resolved to approve an amendment to the lease agreement, whereby the Company would lease from the lessor, starting on August 1, 2005, an additional 436 m^2 at UNITRONICS House, under terms and conditions identical to those of the lease agreement.
Pursuant to the lease agreement, the lease is for a 3-year term, with the Company having an option to extend it by two additional 12-month terms.

On May 21, 2008, the Company's Audit Committee and Board of Directors resolved to approve exercise of the option once again, thereby extending the lease from August 2008 for a further 12 months. (For further details of exercise of the option once again, including summary of reasons given by the Board of Directors and the Audit Committee for approval of this transaction, as well as terms and conditions of the lease, see section 1.12.1 above, the immediate report of a transaction with an interested party or Board member not requiring approval by the General Meeting, dated May 21, 2008 as well as the immediate report of extraordinary transaction with an officer, dated May 21, 2008).

Extension of employment agreements of Mr. HAIM SHANI and Ms. BAREKET SHANI

On January 1, 1999, the Company entered into individual employment agreements with each of Mr. HAIM SHANI, the Company Chairman and controlling shareholder therein, and of Ms. BAREKET SHANI, Mr. SHANI's wife, who also serves as a Board member - whereby Mr. SHANI serves as Company CEO and Ms. SHANI serves as Deputy CEO and Manager, Human Resources.

On November 19, 2003, the Company's Audit Committee and Board of Directors approved amendments to the employment agreements between the Company and Mr. HAIM SHANI and Ms. BAREKET SHANI, whereby the agreements were extended for further 5-year terms, which may be extended for further 5-year terms (subject to approval required by statute). On December 18, 2003, the General Meeting of Company shareholders approved the aforementioned amendment of these agreements.

On March 20, 2005, the Company's Audit Committee and Board of Directors approved a framework transaction pursuant to which Mr. HAIM SHANI is to receive an annual bonus for each calendar year starting from 2005, for as long as he is employed as the Company's CEO within 30 days from the date of approval of the financial statements by the Company's Board of Directors in respect of every such calendar year, at a rate of 7.5% of the pretax income in that year (cost to the Company). On April 12, 2005, the General Meeting of Company shareholders approved the aforementioned framework transaction.

On March 27, 2006, the Company's Audit Committee and Board of Directors approved an amendment to Mr. HAIM SHANI's employment agreement, whereby payment of Mr. SHANI's salary and aforementioned bonus would be made jointly by the Company and by its subsidiary, UNITRONICS Inc.

On May 21, 2008, the Company's Audit Committee and Board of Directors resolved to approve extension of each of the aforementioned agreements, as amended, for a further 5-year term effective starting in January 2009 under the same conditions (for further details of the employment agreements of Mr. SHANI and Ms. BAREKET SHANI, amendments to said agreements and terms there of, as well as the decisions to extend their employment agreements, see section 1.14.4 of this report as well as the immediate report regarding a transaction with a controlling shareholder or with a Board member which is not subject to approval by the General Meeting, dated May 21, 2008).

Signatory rights

In accordance with the directive of the Israeli Securities Authority dated January 3, 2008 with regard to disclosure of authorized signatories in corporations, and the recommendation by Company management to combine signatory rights in the Company into a single decision, the Company Board of Directors resolved on January 15, 2008 to update the list of authorized signatories on behalf of the Company (for further details see section 4.13 of this report as well as the immediate report with regard to signatory rights in the Company, issued on January 16, 2008).

Interest on principal of debentures (Series 1)

On Day 1 of each interest period for debentures (Series 1), on which the Company publishes the interest rate for the period, the LIBOR interest rated quoted as a source (for determining the interest based on terms of the debentures) is not current as of that day, but rather as of several days earlier – therefore the Company in fact publishes at the start of the period an interest rate which is not current as of that date. Subsequent to Day 1 of each period, the source interest rate as of Day 1 is published – which the Company publishes in a revised report - if indeed there was a change in the interest rate (for further details see section 1.19.4 of this report).

Therefore, on December 8, 2008 the Company issued a revised report to the report issued on November 23, 2008 – whereby the interest rate for the principle of debentures (Series 1) for the eighth period was 2.5344 %, and the LIBOR interest rate was 2.5688% - and not as per the original report.

Renewal of Board member and officer liability insurance policies

On April 12, 2005, the General Meeting of Company shareholders approved, subsequent to approval by the Audit Committee and by the Company Board of Directors, an increase in insurance coverage under the Board member and officer liability insurance policies, as well as adjustment of Company deductible for claims filed in the USA and Canada. Furthermore, it was decided to authorize Company management to renew from time to time under similar terms and conditions the aforementioned liability insurance policy for additional terms of up to 18 months each (for further details see section 4.8.7 of this report).

On March 30, 2009, the Audit Committee and the Company Board of Directors resolved to approve, once again, renewal of the Board member and officer liability insurance policy for an additional 12-month term effective starting in December 2008 under similar terms and conditions (for further details see immediate report of transaction with controlling shareholder or Board member not requiring approval by the General Meeting, dated March 30, 2008.

Buy-back of Company debentures (Series 1) and debentures (Series 2)

Subsequent to the reported period, on January 8, 2009, the Company Board of Directors approved buy-back off the stock exchange and not from interested parties of 300,000 debentures (Series 1) at a price of NIS 90.65 in exchange for NIS 272 thousand, as well as 7,100,000 debentures (Series 2) at a price of NIS 74.45 in exchange for NIS 5,558 thousand. The Board of Directors justified the aforementioned buy-back approval saying that the purchase is an opportunity for a profitable transaction in economic terms, which would also improve the Company's cash flow over time. Subsequent to this acquisition, the aforementioned securities are no longer in circulation (for further details see immediate report on event or matter outside the normal course of corporate business, dated January 8, 2009).

Subsequent to the aforementioned purchases, there remain in circulation NIS 17,200,000

par value debentures (Series 1), 1,911,111 and NIS 26,900,000 par value debentures (Series 2) (for further details see immediate report on changes to corporate securities, dated January 8, 2009).

Re-appointment of Board members and appointment of independent Board member

On May 21, 2008, the Company Board of Directors decided to convene the General Meeting of Company shareholders in order for the latter to approve the re-appointment of Mr. HAIM SHANI and Ms. BAREKET SHANI as Board members of the Company for an additional term.

On July 01, 2008, the Company Board of Directors decided to convene the General Meeting of Company shareholders in order for the latter to approve the appointment of Mr. YOEL SELA as an independent Board member of the Company The Board of Directors further decided with regard to Mr. SELA to approve indemnification in accordance with the permission to provide indemnification set forth in Company bylaws, to include Mr. SELA under insurance coverage of Board members and officers of the Company, and to approve payment of annual remuneration and attendance fees (for further details of the approval as well as terms and conditions of remuneration, insurance and indemnification – see sections 4.8.4 and 4.8.7 of this report).

On September 23, 2008, the General Meeting of Company shareholders approved the appointment of Mr. HAIM SHANI, Ms. BAREKET SHANI and Mr. YOEL SELA as well as the Board of Directors decision to provide indemnification to YOEL SELA, to include him under insurance coverage of Board members and officers of the Company as well as payment of annual remuneration and attendance fees to Mr. SELA – all as set forth above.
(For further details, see immediate reports of appointment of Board member (other than a corporation) or individual serving on behalf of a corporation who is a Board member, dated September 24, 2009, as well as the immediate report of outcome of a General Meeting, dated September 24, 2009.)

Termination of independent directors' term in office

On December 15, 2008, Mr. RON MISHAEL resigned his office as an independent Board member of the Company, after having completed 2 terms of 3 years each – the maximum term of office allowed by law (for further details see immediate report of termination of senior officer's term in office, dated December 15, 2009).

Response to publication with regard to negotiations concerning construction of automatic parking garage

On February 04, 2009, the "The Marker" website published details with regard to certain Company operations, including the fact that the Company had signed a contract to construct an automatic parking garage in Mexico. Subsequent to this publication, the Company announced that it was in negotiations with a customer in Mexico concerning construction of an automatic parking garage in the capital, Mexico City. The contract with this customer has yet to be signed, but the customer has paid an "earnest fee" whose amount is not material, subject to future signing of a binding agreement. The transaction value is estimated at $4 million, but the complete terms and conditions of this transaction,

including the final transaction amount, have yet to be determined.

It was further reported that the Company is in different stages of feasibility testing for inclusion in other projects concerning construction of automatic warehouses and/or parking garages in Israel and overseas, which have not yet reached a stage of maturity necessitating reporting. (For further details see immediate report of event or matter outside the normal course of corporate business whose submission has been delayed in accordance with regulation 36(b) of the Securities Regulations (Periodic and Immediate Reports), 1970, dated February 09, 2009.)

Change in interest calculation method for debentures (Series 1) and payment of interest differential

Pursuant to the Company's decision to adopt the position of the trustee for debentures (Series 1) and as per the latter's advice, the Company invited on December 07, 2008, by publication in two Hebrew-language newspapers in Israel and by immediate report, those holding its debentures on certain dates to present to the Company proof of their debenture holdings and the number of such debentures held upon such dates, to provide an address at which they wish to receive the payment and all within 60 days from the publication date of the immediate report, in order to receive the interest differential to which they are entitled under the new calculation (for further details see section 1.19.4 of this report as well as an immediate report of event or matter outside the course of normal corporate business, dated December 07, 2008).

As of March 19, 2009, applications were received from holders of the aforementioned debentures, or representatives there of, which entitle their holders to payment of interest differential as set forth above amounting in total to NIS 30,552; the Company is acting to transfer the interest differential to those entitled and is currently approaching certain holders required to provide additional information.

Further to the trustee's request, the Company is committed to accept applications of additional debenture holders who would present proof to the Company's satisfaction of their holding of debentures on any of the following dates: May 13, 2005 - November 13, 2005 – May 13, 2006 – November 13, 2006 – May 13, 2007 and to transfer the interest differential to said holders, provided that such interest differentials have not yet been paid to these holders under the new calculation in respect of the same debentures held on the effective dates, as defined in the advertisements, and provided that such applications are received by the Company prior to the final maturity or conversion date of the debenture series.

2.2.3 Financial standing

Assets

Total assets on the Company's consolidated balance sheet of December 31, 2008 amounted to NIS 102,421 thousand compared to NIS 112,900 thousand as of December 31, 2007. This decrease primarily stemmed from the decline in cash, cash equivalents and in the trade receivable and inventory, after deducting the increase in other assets, as

specified below.

Total cash, cash equivalents and negotiable securities decreased from NIS 54,702 thousand as of December 31, 2007, to NIS 42,259 thousand as of December 31, 2008. This decrease primarily stemmed from the repayment of convertible debentures (Series 1) and the repayment of convertible debentures stated in Euro, which the Company made during 2008.

Trade and other receivables decreased from NIS 13,995 thousand as of December 31, 2007 to NIS 11,295 thousand as of December 31, 2008, primarily due to a decrease in receivables from the system segment.

Inventory was materially unchanged, amounting to NIS 13,326 thousand as of December 31, 2008, compared to NIS 12,980 thousand as of December 31, 2007. The Company regularly holds 60 - 115 days' worth of inventory of components and raw materials, which are intended for the forecasted requirements for a period of approximately two months. In addition, the Company holds finished goods inventory to allow for supply of current orders for up to 45-70 days. For further details with regard to raw materials, suppliers and inventory, see Chapter A (section 1.9.21.1) above.

Net fixed assets as of December 31, 2008, amounted to NIS 18,208 thousand compared to NIS 18,724 thousand on December 31, 2007. This stability primarily stems from investments made for current operations of the Company, offset by current depreciation in the reported period. For further details on fixed assets see Chapter A (section 1.12) above.

Net intangible assets as of December 31, 2008 amounted to NIS 13,781 thousand, compared to NIS 8,415 thousand as of December 31, 2007. This increase is primarily due to recording of Company assets under development pro-rata to the development cost which meets the conditions for recognition as intangible assets.

Liabilities

Total short-term credit amounted to NIS 16,941 thousand as of December 31, 2008, compared to NIS 11,775 thousand as of December 31, 2007. This amount is primarily due to current maturities of convertible debentures (Series 1) maturing in May 2009, as well as to current maturities of debentures (Series 2) maturing in August 2009 and to current maturities of long-term loans.

Trade payables decreased, amounting as of December 31, 2008 to NIS 9,545 thousand, compared to NIS 12,630 thousand as of December 31, 2007. This decrease is mainly due to decrease in trade payables for the system segment in the reported period.

Other payables amounted, as of December 31, 2008, to NIS 13,029 thousand, compared to NIS 8,230 thousand as of December 31, 2007. The decrease in this item is primarily due to an increase in advance payments from customers.

Total non-current liabilities as of December 31, 2008 amounted to NIS 41,973 thousand, compared to NIS 55,290 thousand as of December 31, 2007. The change is primarily due

to the second redemption of convertible debentures (Series 1) amounting to NIS 8,750 thousand in May 2008, and to initial recording of current maturities of debentures (Series 2) amounting to NIS 7,200 thousand, maturing in August 2009.

Company working capital amounted to NIS 27,548 thousand as of December 31, 2008, compared to NIS 49,399 thousand as of December 31, 2007. The decrease is primarily due to partial redemption of convertible debentures (Series 1) as set forth above, to recording of current maturities of debentures (Series 2) as set forth above and to the net loss recorded in the period, as set forth below. For further details on working capital see Chapter A (section 1.9.21 above).

Shareholders' equity for the Company as of December 31, 2008 amounted to NIS 20,700 thousand, compared to NIS 24,764 thousand as of December 31, 2007. The decrease is primarily due to the loss recorded in the period, as set forth below.

2.2.3.1 Analysis of financial standing by operating segment

As set forth above, the Company's commercial operations are primarily performed by two business departments, the Products Department and the Systems Department. For further details concerning the sectors of the Company's operations, see Chapter A (sections 1.8, 1.9, 1.10 and 1.11) above.

The product segment

Total assets used by the product segment as of December 31, 2008 amounted to NIS 23,184 thousand, compared to NIS 20,022 thousand as of December 31, 2007. This increase is primarily due to the increase in the trade receivables item.

Product segment liabilities were materially unchanged as of December 31, 2008, amounting to NIS 9,185 thousand, compared to NIS 8,600 thousand as of December 31, 2007.

The systems segment

Total assets used by the system segment as of December 31, 2008 amounted to NIS 3,813 thousand, compared to NIS 9,095 thousand as of December 31, 2007. The decrease in this item is primarily due to a decrease in trade receivables in this segment.

Total liabilities for the system segment as of December 31, 2008 amounted to NIS 9,748 thousand, compared to NIS 8,552 thousand as of December 31, 2007. The increase in this item is primarily due to an increase in advance payments from customers of this segment.

Assets and liabilities not assigned to a specific operating segment

Total assets not assigned to any particular operating segment as of December 31, 2008, amounted to NIS 75,371 thousand, compared to NIS 83,632 thousand as of

December 31, 2007. The decrease in this item is primarily due to a decrease in cash, cash equivalents and negotiable securities as set forth above.

Total liabilities not assigned to any particular operating segment as of December 31, 2008, amounted to NIS 62,702 thousand, compared to NIS 70,777 thousand as of December 31, 2007. The decrease in this item is primarily due to redemption of convertible debentures (Series 1) by the Company in 2008.

Operating Results

Revenues

Revenues in the year ended December 31, 2008 amounted to NIS 79,720 thousand, compared to NIS 102,268 thousand in 2007 (a 22% decrease). The Company believes that the decrease in revenues is primarily due to impact of the financial crisis on global markets and on the Israeli market, as set forth in section 2.2.2 above, including:

- Decrease in customer order rate for construction of logistics systems by the Company's Systems Department.
- Challenge to maintain the product sale rate typical of previous years.

For further details with regard to the Company's customers, including its major distributors, major customers, and geographic segments see Chapter A (sections 1.9.12.3, 1.9.26 and 1.10.9) above.

Cost of revenues

The cost of revenues in the year ended December 31, 2008 amounted to NIS 53,756 thousand (or 67% of revenues in the period), compared to NIS 70,865 thousand in the year ended December 31, 2007 (or 69% of revenues in the period). The decrease in cost of revenues is primarily due to the decrease in Company revenues, as set forth above; the decrease in cost of revenues rate is due to the change in gross margin rates, as set forth below.

Gross income

Total gross income in the year ended December 31, 2008 amounted to NIS 25,964 thousand (or 33% of revenues in the period), compared to NIS 31,403 thousand in the year ended December 31, 2007 (or 31% of revenues in the period).

Gross margin in the product segment exceeded that in the system segment. The Company believes that changes in the revenue mix from the different operating segments (decrease in revenues from systems, compared to revenues from products), changes in customer order rate, significantly lower margins of some transactions, and the stronger NIS vs. the major sales currencies in the first half of 2008 were the main causes of the change in gross margin in the reported period. For further details with regard to the gross income in each sector of operation separately, see the analysis of business results by sectors of operation, below. For further details with regard to the profitability of products and services, see Chapter A (Section 1.9.9 and 1.10.8) above. The Company estimates that gross margin for the product segment may decrease in 2009, due to amortization of development cost[1].

[1] The information concerning the expected decrease in gross margin constitutes forward-looking information. The main data used as basis for this information are the development expenses for which the criteria for recognizing an intangible asset have been met. The main factors which may result in this information failing to materialize are changes in sale volumes of products for which the aforementioned development expenses have been incurred.

Net development expenses

Net development expended for the year ended December 31, 2008 were materially unchanged, amounting to NIS 1,617 thousand, compared to NIS 1,647 thousand for the year ended December 31, 2007.

Development expenses in the reported period reflect the continued enhanced development of technologies and products required to support the Company's continued growth. For further details with regard to new products and the Company's development activities, see Chapter A (section 1.9.18) above. At the end of the reported period and subsequently, the Company has adjusted staffing of development teams in accordance with changes in Company operations, as set forth in this report, in order to align them with its business plans.

Sales and marketing expenses

Sales and marketing expenses for the year ended December 31, 2008 amounted to NIS 12,449 thousand (or 16% of revenues), compared to NIS 13,567 thousand for the year ended December 31, 2007 (or 13% of revenues).

The decrease in sales and marketing expenses in the reported period reflects an adjustment for the decrease in Company revenues and included, *inter alia*, new market development efforts in the system segment outside of Israel, visits to and participation at trade shows and other marketing activities in Israel and overseas. For further details on the marketing and distribution activities, see Chapter A (section 1.9.12 and 1.10.10) above.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2008 amounted to NIS 5,101 thousand (or 6% of revenues), compared to NIS 6,576 thousand for the year ended December 31, 2007 (or 6% of revenues).

The decrease in general and administrative expenses for the reported period reflects an adjustment for the decrease in Company revenues and included, *inter alia*, requird expenses for support and management of Company operations, including on-going expenses for professional consulting and legal services, expenses associated with the fact that Company securities are traded both on the Tel Aviv stock exchange and on the EuroNext stock exchange in Brussels.

Operating income

Total operating income for the year ended December 31, 2008 amounted to NIS 6,797 thousand (or 8.5% of revenues), a decrease from NIS 9,613 thousand for the year ended December 31, 2007 (or 9.4% of revenues).

The Company believes that the decrease in operating income and the rate there of are primarily due to the decrease in gross income for the Company, due to the decrease in Company revenues in the reported period, offset by adjustments made to sales, marketing and administrative expenses.

Financing expenses and revenues

Net financing expenses and revenues for the year ended December 31, 2008 amounted to NIS 9,743 thousand, compared to NIS 3,955 thousand for the year ended December 31, 2007.

The main increase in this item in comparison with the corresponding period in 2007 stems from revaluation of debentures (Series 2) which are linked to the Consumer Price Index (CPI) according to the Company's August 2006 prospectus as well as from erosion of Company revenues arising from negotiable securities, *inter alia* due to effects of the financial crisis as set forth above. This item also includes the interest components of the

Company's debentures, mainly debentures (Series 2), which were issued according to the August 2006 prospectus, as well as financing costs in respect of long-term credit.

Commencing May 2004 the Company's exposure to fluctuations in the exchange rate of the NIS against the USD increased, following the issuance of convertible debentures (Series 1) according to the Company's May 2004 prospectus, which are linked to the USD rate (based on a rate of NIS 4.59 per USD) and in respect of which the principal began to be repaid in May 2007. In addition to this exposure to fluctuations in the exchange rate, there is an interest component in respect of this issuance and accordingly the Company estimates that this item will be affected by these factors in the coming quarters[2].

Commencing August 2006 the Company's exposure to changes in the CPI rates increased, following the issuance of debentures (Series 2) according to the August 2006 prospectus, which are linked to the CPI. Concurrently with this exposure to fluctuations in the CPI, there is an interest component in respect of this issuance and accordingly the Company estimates that this item will be affected by these factors in the coming quarters[3].

Income (loss) for the year

For the year ended December 31, 2008, the Company recorded a loss of NIS 2,946 thousand, compared to income of NIS 5,658 thousand for the year ended December 31, 2007.

The transition to a loss in the reported period, compared to the corresponding period in 2007, is primarily due to an increase in financing expenses and to a decrease in Company revenues, as set forth above.

2.2.4.1 Analysis of business results by operating segment

As set forth above, the Company's main commercial activity is performed through two business departments, the Products Department and the Systems Department. For further details with regard to Company operating segments and margins of said operations, see Chapter A (sections 1.8, 1.9, 1.10 and 1.11) above.

Revenues from products for the year ended December 31, 2008, were 81% of total Company revenues for that year, whereas revenues from systems for the same period were 18% of total revenues. Revenues from products for the year ended December 31, 2007, were 59% of total Company revenues for that year, whereas revenues from systems for the same period were 41% of total revenues. The Company believes that the decrease in

[2] The information regarding exposure to exchange rate fluctuations is forward-looking information. The main date on which this information is based is the linkage of debentures (Series 1) to the USD exchange rate, based on a rat of NIS 4.59 per USD 1. The main factors which may result in this information failing to materialize are changes in the NIS/USD exchange rate.

[3] The information regarding exposure to changes in CPI is forward-looking information. The main data on which this information is based is the linkage of debentures (Series 2) to the Consumer Price Index. The main factors which may result in this information failing to materialize are changes in the Consumer Price Index.

share of revenues from the system segment in the reported period is primarily due to the decrease in customer order rate and to effects of the financial crisis on global markets as well as on the Israeli market, as set forth in section 2.2.2 above.

The product segment

Total revenues from the product segment as of December 31, 2008 amounted to NIS 64,418 thousand, compared to NIS 60,041 thousand as of December 31, 2007. The Company believes the moderate 7% increase in the reported period is due to effects of the financial crisis on global markets and to the stronger NIS vs. the major sales currencies, along with increasing market recognition for Company products, introduction of new products and international marketing efforts. The Company believes it would be difficult to maintain the product selling rate typical of recent years (for further details see section 1.9.25 above).

Gross margin for the product segment in the year ended December 31, 2008 was 50%, compared to 46% for the year ended December 31, 2007. Relatively high margins for certain transactions and the stronger NIS vs. major sales currencies are the major causes of changes in gross margin during the reported period. The Company estimates that gross margin for the product segment may decrease in 2009, due to amortization of development cost.

Total results of the product segment for the year ended December 31, 2008 amounted to NIS 22,348 thousand, compared to NIS 16,842 thousand for the year ended December 31, 2007. The Company believes that the 33% increase in the reported period is primarily due to the increase in Company revenues from this segment, and to the increase in gross margin, offset by other expense items attributed to this segment in the reported period.

The system segment

Total revenues from the system segment as of December 31, 2008 amounted to NIS 14,597 thousand, compared to NIS 41,528 thousand as of December 31, 2007. The 65% decrease in the reported period vs. the corresponding period is primarily due to a decrease in customer order rate for construction of logistics systems by the Company's Systems Department in the reported period, to the actual progress rate of construction of such systems, and to impact of the financial crisis on global markets and on the Israeli market, as set forth above.

The gross loss from the system segment for the year ended December 31, 2008 amounted to NIS 4,052 thousand, compared to gross income of NIS 4,578 thousand for the year ended December 31, 2007.

Results of the system segment for the year ended December 31, 2008 amounted to a loss of NIS 6,597 thousand, compared to income of NIS 1,083 thousand for the year ended December 31, 2007.

The loss recorded by the segment in the reported period is due, according to the Company, to the decrease in segment revenues in the reported period, as set forth above, and to fixed expenses required for continued operations and support of this segment.

2.2.5 Liquidity and financing sources

The Company's balance of cash, cash equivalents and negotiable securities as of December 31, 2008 amounted to NIS 42,259 thousand, compared to NIS 54,702 thousand as of December 31, 2007. The decrease is primarily due to redemption of convertible debentures (Series 1) and to redemption of Euro-denominated debentures by the Company in 2008.

Cash flow from current operations for the year ended December 31, 2008 amounted to a positive cash flow of NIS 10,661 thousand, compared to a positive cash flow of NIS 7,859 thousand for the year ended December 31, 2007. The positive cash flow in the reported period was primarily due to depreciation and amortization, to an increase in other accounts payable – offset by the loss for the period as set forth above.

Cash flow from investment operations for the year ended December 31, 2008 amounted to a negative cash flow of NIS 369 thousand, compared to a negative cash flow of NIS 19,177 thousand for the year ended December 31, 2007. The negative cash flow in the reported period is primarily due to sale of negotiable securities since early in the year, offset by acquisition of fixed assets and investment in assets under development.

Cash flow from financing operations for the year ended December 31, 2008 amounted to a negative cash flow of NIS 11,717 thousand, compared to a negative cash flow of NIS 12,165 thousand for the year ended December 31, 2007. The negative cash flow in the reported period is primarily due to redemption of convertible debentures (Series 1), denominated in Euro, and to loan repayment.

As of December 31, 2008, the Company had credit facilities for current operations amounting to NIS 7.9 million. As of December 31, 2007, a total sum of NIS 60 thousand out of the aforementioned credit facilities was used for issuance of guarantees to secure Company obligations in projects carried out by the Systems Department.

2.3 Qualitative report on exposure to market risk and management there of

The Company's CEO, Mr. HAIM SHANI, and its CFO, Mr. YAIR ITZKOVICH, are the persons responsible for the management of market risks in the Company (for further details see sections 4.11a and 4.12b below, respectively). The CFO is responsible for gathering information in accordance with the risks listed below, and for processing and presenting the information to the CEO on a quarterly basis. The CEO is responsible for analyzing the information and drawing operative conclusions during his quarterly meetings with the CFO.

Exposure to Exchange Rate Fluctuations

The Company is exposed to exchange rate fluctuations, particularly fluctuations in the rate of the US dollar compared to the New Israel Shekel and compared to the Euro, for the reasons set forth below:

In May 2004, the Company issued convertible debentures (Series 1) pursuant to the 2004 Prospectus. The principal and interest of these debentures are linked to the official exchange rate of the US dollar (with a base rate of NIS 4.59/US1$). The repayment of debenture principal began in May 2007. Until the full conversion or the full redemption of the debentures by May 2010, the Company is exposed to fluctuations in the rate of the US dollar against the NIS.

In February 2001, the Company issued convertible debentures that were issued and denominated in Euros. In December 2003, 75% of debenture principal was converted into Company shares. Until the complete redemption in September 2008, the Company was exposed to changes in the NIS/Euro exchange rate. Following the full redemption, there are no outstanding debentures left in this series.

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

The current liabilities items that are exposed to exchange rate fluctuations include current maturities of long-term loans mostly linked to foreign currency as well as debt to suppliers in foreign currency, mainly in Euros. The non-current liabilities include debt in respect of a financing plan for the acquisition of rights in the Company's facilities at Airport City, 50% of which are denominated in US dollars, and 50% – in Euro.

Most of the Company's operations are conducted in foreign currency, or in NIS linked to foreign currency. In the products segment, most of the revenues are denominated in US dollars or linked to the US dollar exchange rate, with the exception of revenues generated from sales in Europe, which, for the most part, are denominated in Euro. In the system segment, most of the Company's revenues are generated from sales stated in Euro or linked to the Euro exchange rate.
The raw materials required for the manufacture of the Company's products mainly include various electronic and mechanical components, and the prices are mostly denominated in foreign currency, mainly US dollar and Euro.

Exposure to fluctuations in the Consumer Price Index

In August 2006, the Company issued debentures (Series 2). These debentures are linked to the Israeli consumer price index, with a basic index of 188.1 (1993 average). Therefore, as of August 2006 the Company’s exposure to CPI fluctuations has increased.
Developments in Israel’s economy, including devaluation and inflation, could give rise to fluctuations in the Consumer Price Index, and consequently could affect the Company's financing revenues and/or financing expenses.

Risk related to negotiable securities

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

Interest risk

The Company has various loans in connection with the acquisition of rights in the Company's facilities at Airport City, convertible debentures (Series 1), which the Company issued under the 2004 Prospectus, and other credit facilities bearing various interest rates and exposed to possible changes in the Prime and/or Libor interest rates.

Company policy with regard to market risk management

The Company's policy is to try to reduce, for each contract, the exposure to exchange rate fluctuations by adjusting the currency of revenues to the currency of the main expenses. In the Systems sector, the Company usually links the payment terms (date / currency) from different customers to those of the subcontractors.

Company policy with regard to investment allocation is guided by the Company’s intention to reduce its exposure to dollar-linked liabilities (primarily principal and interest payments for dollar-denominated convertible debentures (Series 1)).

To this end the Company reviewed, by consulting capital market professionals, subsequent to the 2004 Prospectus (and after receiving the issuance proceeds) several investment alternatives, including: Dollar-linked deposits, use of derivatives and other financial instruments and use of NIS-linked investments.

The Company estimates that, since its liabilities for the convertible debentures (Series 1) issued under the 2004 Prospectus are linked to the Dollar exchange rate but no lower than a base rate of NIS 4.59 per dollar, the use of Dollar-linked deposits alone would not secure the Company's liabilities with regard to convertible debentures (Series 1), especially following the fall of the dollar's exchange rate below the aforementioned base rate. On May 24, 2007, the Company repaid 25% of total par value principal of convertible debentures (Series 1) amounting to NIS 8,750 thousand, according to the base rate of NIS 4.59 per USD (whereas the official USD exchange rate upon the payment date was NIS 3.9910 per USD) and on May 23, 2008, the Company repaid a further 25% of total par value principal of said debentures, amounting to NIS 8,750 thousand according to the base rate of NIS 4.59 per USD (whereas the official USD exchange rate upon the payment date was NIS 3.3330 per USD) .

The use of derivatives and other financial instruments to hedge changes in the Dollar exchange rate in order to meet the Company's liabilities in respect of its convertible debentures (Series 1) was deemed by the Company to be financially inadvisable due to the high cost associated with it.

Beyond the activities set forth above, the management of market risk and use of hedging during the reported year are presented quarterly to the Board of Directors as part of discussions of periodic reports.

The Company Board of Directors has determined, after reviewing the four warning signs set forth in regulation 10(b)(14) of the Securities Regulations (Periodic and Immediate Reports), 1970, with regard to disclosure of expected cash flow for financing repayment of corporate obligations, that the Company is not experiencing liquidity hardship, and that it is capable of meeting its obligations, including full redemption of liabilities in respect of issuance of debentures (Series 1) and debentures (Series 2).

2.4 Disclosure with regard to compensation of auditing CPA

The Company's CPAs are (1) AMIT HALFON CPA of Ramat Gan, Israel and (2) Clarke, Snow & Riley LLP of Quincy, MA, USA .The CPA fees are determined based on the required work load for rendering their services. The fee is determined by the Company Board of Directors under the authority granted to it by the General Meeting of Company shareholders, which appointed the CPAs.

Below are details of total remuneration of the Company's auditing CPAs in respect of audit and other services:

CPA	Company to which service was rendered	Type of Service	2008 NIS in thousands	2008 Work hours	2007 NIS in thousands	2008 Work hours
AMIT HALFON, CPA, Ramat Gan, Israel	UNITRONICS (1989) (R"G) Ltd.	Audit services, audit-related services and tax services	215	997	264	1,100
Clarke, Snow & Riley LLP Quincy, MA, USA	UNITRONICS Inc.	Audit services, audit-related services and tax services	119	185	113	200

2.5 Consolidated linkage basis as of December 31, 2008

Consolidated linkage basis report	Israeli Currency		Foreign Currency				
	Non-linked	CPI-Linked	In Euro	In USD	In Other Currencies	Non-Monetary Balances	Total
	NIS in Thousand						
Assets							
Cash and cash equivalents	5,483	-	4,718	4,358	-	-	14,559
Negotiable securities	12,531	12,576	-	2,593	-	-	27,700
Accounts receivable	4,195	-	4,076	3,024	-	-	11,295
Accounts Payable	100	-	-	88	-	228	416
Inventory	-	-	-	-	-	13,326	13,326
Work-in-progress inventory	-	-	-	-	-	-	-
Long-term deposits	-	-	-	-	-	134	134
Fixed assets, Net	-	-	-	-	-	18,208	18,208
Pre-paid expenses in respect of operational lease, net						3,002	3,002
Non- tangible assets, Net	-	-	-	-	-	13,781	13,781
Total Assets	22,309	12,576	8,794	10,063	-	48,679	102,421
Liabilities							
Current maturities of non-current liabilities	-	7,287	489	9,165	-	-	16,941
Suppliers and service providers	7,773	-	634	1,138	-	-	9,545
Option warrants	-	-	-	-	-	18	18
Embedded derivatives						215	215
Accounts payable and accruals	8,663	-	-	261	-	4,105	13,029
Long-term loans	-	-	3,910	3,318	-	-	7,228
Convertible debentures	-	-	-	7,896	-	-	7,896
Debentures	-	26,046	-	-	-	-	26,046
Liabilities in respect of employee benefits, net		-	-	-	-	803	803
Total liabilities	16,436	33,333	5,033	21,778	-	4,141	81,721
Balance (Net)	5,873	(20,757)	3,761	(11,715)	0	43,538	20,700

Consolidated Linkage Basis Report as of December 31, 2007

Consolidated linkage-basis report	Israeli Currency		Foreign Currency				
	Non-linked	CPI-Linked	In Euro	In USD	In Other Currencies	Non-Monetary Balances	Total
	NIS in Thousand						
Assets							
Cash and cash equivalents	3,851	26,025	2,494	9,740	-	-	16,085
Negotiable securities	5,089	-	-	7,503	-	-	38,617
Accounts receivable	8,771	-	2,804	2,420	-	-	13,995
Accounts Payable	226	-	-	-	-	23	249
Inventory	-	-	-	-	-	12,980	12,980
Work-in-progress inventory	-	-	-	-	-	319	319
Long-term deposits	-	-	-	-	-	444	444
Fixed assets, Net	-	-	-	-	-	18,724	18,724
Other assets and deferred expenses, Net	-	-	-	-	-	11,487	11,487
Total Assets	17,937	26,025	5,298	19,663	0	43,977	112,900
Liabilities							
Current maturities of non-current liabilities	-	127	2,478	9,170	-	-	11,775
Suppliers and service providers	6,620	-127	3,468	2,542	-	-	12,630
Conversion component		-				1	1
Option warrants						211	211
Accounts payable and accruals	6,975		-	218	-	1037	8,230
Long-term loans	-	102	4,700	3,776	-	-	8,578
Convertible debentures	-	-	-	15,609	-	-	15,609
Debentures	-	30,941	-	-	-	-	30,941
Liabilities in respect of employee benefits, net	161	-	-	-	-	-	161
Total liabilities	13,756	31,170	10,646	31,315	0	1,249	88,136
Balance (Net)	4,181	(5,145)	(5,348)	(11,652)	0	42,728	24,764

2.5.1 Sensitivity Tests of Financial Instruments as of December 31, 2008

As of the balance sheet date, the Company conducted 4 sensitivity tests in respect of changes within an upper range and lower range of 5% and 10% in market factors.
The market tests were based on the model specified.

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

	Income (loss) due to change, NIS in thousand		NIS in thousands	Income (loss) due to change, NIS in thousand	
	10%+ NIS 4.18 per $	5%+ NIS 3.99 per $	Fair Value NIS 3.802 per $	-5% NIS 3.61 per $	-10% NIS 3.42 per $
Cash and cash equivalents	436	218	4,358	-218	-436
Negotiable securities	259	130	2,593	-130	-259
Accounts receivable	302	151	3,024	-151	-302
Accounts Payable	9	4	88	-4	-9
Short-term credit and current maturities of non-current liabilities (*)	-42	-21	-9,165	21	42
Suppliers and service providers	-114	-57	-1,138	57	114
Accounts payable and accruals	-26	-13	-261	13	26
Long-term loans	-332	-166	-3,318	166	332
Convertible debentures (**)	-	-	-7,896	-	-
Total	492	246	-11,715	-246	-492

* For current maturities of convertible debentures issued at minimal exchange rate of NIS 4.59 per USD

** The convertible debentures were issued at minimal exchange rate of NIS 4.59 per USD

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

	Income (loss) due to change, NIS in thousand		NIS in thousands	Income (loss) due to change, NIS in thousand	
	10%+ NIS 5.83 per €	5%+ NIS 5.56 per €	Fair Value NIS 5.297 per €	-5% NIS 5.03 per €	-10% NIS 4.77 per €
Cash and cash equivalents	472	236	4,718	-236	-472
Accounts receivable	408	204	4,076	-204	-408
Short term credit and current maturities of long-term liabilities	-49	-24	-489	24	59
Suppliers and service providers	-63	-32	-634	32	63
Long-term loans	-391	-196	-3,910	196	391
Total	377	188	3,761	-188	-377

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

	Income (loss) due to change, NIS in thousand		NIS in thousands	Income (loss) due to change, NIS in thousand	
	10%+ 218.26 points	5%+ 208.34 points	Fair Value 198.42 points	-5% 188.50 points	-10% 178.58 points
Negotiable securities	1,258	629	12,576	-629	-1,258
Short term credit **** and current maturities of long-term liabilities	-729	-364	-7,287	264	379
Debentures (***)	-2,605	-1,302	-26,046	1,302	1,355
Total	-2,076	-1,037	-20,757	1,037	476

*** Debentures issued at a basic index of 188.1 points (1993 Average)

4) A table listing changes to the fair value of financial instruments sensitive to changes in rates of negotiable securities

	income (loss) due to change, NIS in thousands		NIS in thousands	income (loss) due to change, NIS in thousands	
	10%+	5%+	Fair Value	-5%	-10%
Local - Government	729	364	7,920	-364	-729
Local - Corporate	2,041	1,020	20,410	-1,020	-2,041
Total	2,770	1,385	29,161	-1,385	-2,770

2.6 Details of Company's internal auditor

a. The Company's internal auditor is CPA EYAL HOROVITZ (jurist) who has held this position since June 2000. His appointment was approved at the meetings of the Audit Committee and Board of Directors on June 18, 2000. To the best of the Company's knowledge, CPA HOROVITZ complies with provisions of Section 146(b) of the Companies Ordinance and provisions of Section 8 of the Internal Audit Law, 1992 (hereinafter: "**the Internal Audit Law**"). The credentials that qualify CPA Horowitz for his position as the Company's internal auditor are his education as a CPA and jurist and his involvement in the audit as a CPA and an internal auditor of public companies since 1991. The internal auditor was appointed after the Audit Committee and the Board of Directors have reviewed his experience and track record in internal auditing of other public companies considering, among others, the type and size of the company as well as the scope and complexity of its operations.

The Company's internal auditor has no business relations or other affiliations with the Company or its controlling shareholder, nor – to the best of the Company's knowledge - to affiliated entities.

b. CPA HOTOVITZ is not an employee of the Company and provides internal auditing services to the Company as an external entity viaBAKER TILLY HIGST, Horovitz Idan Goldstein Sabo Tevet, of 3 Shadal Street, Tel Aviv (Company ID 557383031) which has an internal auditing department and whose employees have skills in various disciplines.

c. The organizational authority over the Company's internal auditor is the Chairman of the Board of Directors of the Company, and the Chairman of the Audit Committee of the Company, as the professional authority and as the person who instructs the internal auditor with regard to the subjects for the internal audit.

d. The annual and multi-annual audit plan and considerations in its determination: Major considerations in determining the current and multi-annual audit plan for the Company are: (1) proposals of the internal auditor for periodic and annual working plans; (2) proposals of members of the Audit Committee and the Board of Directors of the Company, based on, among other factors, the proposals of the internal auditor, the subjects of the internal audit in past years, the recommendations of the Company's legal advisor and issues that have been discussed at regular meetings of the Audit Committee and the Board of Directors of the Company; and (3) the size of the Company, its organizational structure and the nature and scope of its business activities. The Audit Committee and Board of Directors discuss and approve the annual plan and the issues to be reviewed by the internal auditor, and those issues are reviewed by the internal auditor as part of his annual work. The internal auditor is authorized to exercise his discretion as to whether to deviate from the original plan in order to review data he randomly found during the execution of the annual work plan. Should the internal auditor decide to conduct a comprehensive review of a subject or area not included in the

list of issues approved by the Audit Committee for the annual work plan, the auditor will recommend that the Audit Committee's Chairman amend the plan, and the latter would raise the issue for discussion and approval during Audit Committee meetings.

e. From time to time, and as needed, the audit plan also addresses overseas operations conducted by the Company. In the internal audit report for 2003, the internal auditor made reference to several aspects of the activities of UNITRONICS Inc. (a wholly-owned subsidiary of the Company engaged primarily in coordinating the marketing and distribution activities of the Company in the US - for further details see section 1.21.2 above) - including monitoring the implementation of the internal auditor's recommendations on these issues. In all cases, all Company documents with regard to operations of the Company and/or its overseas subsidiary are fully available to the auditor in Israel.

From time to time, and as needed, the audit plan also addresses the activities of the Company's subsidiaries in Israel. The Company's internal audit report for 2004 made reference to several aspects of the activity of UNITRONICS House Management and Maintenance (2003) Ltd. - a wholly-owned subsidiary of the Company (for further details see section 1.21.1 above).

f. The extent of services of the internal auditor and the staff of employees reporting to him in the matter of internal audit for the Company during the years 2006, 2007 and 2008 ranged from 85-175 hours each year. The Board of Directors believes that this scope is in line with the extent of activity reviewed by the auditor. The auditor is authorized to shift hours from one subject to another, and since his work is continuous, the auditor can shift hours from one year to the next in order to allow for an in-depth and extensive coverage of the reviewed subjects at his discretion. Furthermore, the extent of employment of the internal auditor is determined each year together with the approval of the work plan, while taking into consideration the scope of the work plan for the relevant year, its complexity and the sensitivity of the subjects reviewed during that year.

Hours	2006	2007	2008
Hours invested in internal audit of the Company and held companies, regarding their operations in Israel.	100	175	85
Hours invested in internal audit of the Company and held companies, regarding their operations overseas.	0	0	0

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

g. The internal auditor, according to his notice to the Company dated February 17, 2005, conducts the audit at the Company in accordance with generally accepted professional standards, as detailed in Section 4(b) of the Internal Audit Law 5752 - 1992, which are based on the professional standards for internal auditing of the Israeli Internal Auditors' Chamber. The Board of Directors believes that the internal auditor meets the requirements stipulated by the above standards, considering the internal auditor's professional aptitude, skills, the duration of his employment by the Company, his familiarity with the Company and the manner in which he edits, submits and presents the findings of his audits to the Company.

h. All documents and information requested by the internal auditor, including those regarding operations of subsidiaries, are provided to him as stipulated by Section 9 of the Internal Audit Law and he is granted free access to such information, including continuous, unmediated access to Company information systems, including its financial data.

i. Below are details of the dates in which a written report on the internal auditor's findings was served upon the Chairman of the Board of Directors and the Chairman of the Audit Committee, and the dates on which a discussion was held at the Audit Committee and/or at the Board of Directors of the Company.

Issue	2006 Report	2007 Report	2008 Report
Date of submission of internal auditor's report	February 8, 2006	March 5, 2007	July 20, 2008
Date of discussion by Audit Committee	, 20February 2006	March 25, 2007	November 26, 2008
Date of discussion by Board of Directors	, 20February 2006	March 25, 2007	Novevmver 26, 2008

j. The Board of Directors of the Company believes that the nature and continuity of the activity and work plan of the Company's internal auditor are reasonable, considering the size of the Company, its organizational structure and the nature and scope of its business activities, and that they allow fulfilling the objectives of the internal audit.

k. The internal auditor's fee for services rendered in 2008 amounted to NIS 17,000. The internal auditor is paid an hourly rate of NIS 200. In the Board of Directors' opinion, the compensation of the internal auditor does not influence his professional discretion considering, among others, the Board of Directors' impression of the manner in which he performs the work of internal auditor at the Company, the level of detail, accuracy and diligence of the audit findings submitted by him to date, as well as the amount of his overall income relative to his wages as the Company's internal auditor.

2.7 Directors having Accounting Skills: At the meeting of the Company's Board of Directors held on March 18, 2004, the Company's Board of Directors determined that the proper minimal number of directors of the Company having accounting and financial skills, taking into consideration, *inter alia*, the size of the Company, the type of its operation, its complexity, etc, would be one director, for as long as the Company's Board of Directors comprises up to six members. Currently, the Company is served by three Board members having accounting and financial skills out of the five Board members: Mr. ZVI LIVNE, a CPA by education and current occupation; Mr. MOSHE BARAZ, a CPA by education and CFO by current occupation; and Mr. YOEL SELA, the current CEO with many years' experience as CFO and CEO of companies in various fields (for further details see section 4.11.1 below).

2.8 Charitable Donation Policy: The Company’s Articles of Association has no provisions for making charitable donations, and therefore the Company has no policy concerning charitable donation and has not made any such donations in the relevant periods.

2.9 Critical accounting estimates: The critical accounting estimates used in the financial statements are: (a) benefits in respect of severance pay and other post-retirement benefits; (b) development cost.

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

(1)	Security	Debenture (Series 1)	Debenture (Series 2)
a.	Issue date	May 2004	August 2006
b.	Total par value upon issuance	35,000,000	34,000,000
c.	Par value	17,200,000	34,000,000
d.	Par value in accordance with linkage terms – as of the date of this report	17,200,000	35,899,734
e.	Accumulated interest	92,349	761,960
f.	Fair value as of the date of this report	16,646,000	33,226,000
g.	Market value	14,912,400	25,029,295
h.	Interest type and description	Six-month LIBOR + 2.5%	6.1% p.a.
i.	Principal payment dates	Remaining two equal annual installments starting on May 23, 2009	Five equal annual installments starting on August 25, 2009
j.	Interest payment dates	May 23, 2009 November 23, 2009 May 23, 2010 November 23, 2010	On each 25th day of February and August of the years 2009-2013
k.	Details of principal and interest linkage	Principal and interest linked to the USD, base exchange rate of 4.59 or higher	Principal and interest linked to the Consumer Price Index, base rate of 188.1 or higher (CPI for July, 2006)
l.	Are debentures convertible?	Convertible	Not convertible
m.	Is corporate entitled to early redemption?	Not entitled	Not entitled
n.	Is payment of obligation guaranteed in deed of trust?	No	No
(2)	Trustee for debenture series with trust company; contact information of trustee	Deloitte Touche (Israel) Brightman Almagor Trustees Ltd., CAROLINE HAIM, Attorney / DAVID VALIANO, CPA 1 Azrieli, TEL AVIV Telephone: 03 6085452 Fax: 03 6094944	Hermetic Trusteeship (1975) Ltd., DAN AVNON and/or MERAV OFER-OREN, 113 HA-YARKON Street, TEL AVIV Telephone:,03-5274867 Fax: »03-5271451 Email:« hermetic@hermetic.co.il

(3) Convertible debentures (Series 1) – On May 19, 2004, the Company issued NIS 35,000,000 par value debentures (Series 1), registered in the owner's name, maturing (principle) in four equal annual installments on May 23 of each year 2007 - 2010 (inclusive), linked (principal and interest) to the official USD exchange rate (no less than NIS 4.59 per USD) and bearing variable interest at six-month LIBOR + 2.5% per annum. The debentures (Series 1) are convertible into ordinary shares on each trading day through May 09, 2010, except between May 10 and May 23 of each year 2007 - 2009, such that each NIS 9.00 par value debentures (Series 1) not redeemed may be converted into one Company ordinary share (subject to adjustments). The debentures (Series 1) were issued pursuant to the 2004 prospectus at 95% of par value.

(5+6) As of the end of and during the reported period, the Company was in compliance with all terms and conditions in accordance with the deeds of trust for debentures (Series 1) and debentures (Series 2); the Company was not in breach of any obligation or condition which are not of a technical nature set forth in the deeds of trust , and there was no cause for demanding immediate redemption of the debentures. (For further details of payment of interest differentials for debentures (Series 1), see sections 1.19.4 and 2.2.2 of this report.)

(8) The debentures (Series 1) and debentures (Series 2) are not secured by any lien. For as long as the Company has an unpaid principal balance of debentures (Series 1) and debentures (Series 2) in circulation, including linkage differentials and interest associated there with, to secure the repayment there of, the Company shall avoid creating any further liens on its assets other than the existing ones, to benefit any third party, without prior written consent of the trustees, except for liens on real estate and/or equipment acquired by the Company, which may be pledged solely to secure financing provided for acquisition of the pledged asset – which liens the Company may create with no limitation to benefit any person.

2.11 Independent Board members

The Company bylaws do not incorporate provisions of the Corporate Act with regard to the number of independent Board members. The Board of Directors has discussed this issue and determined that in view of provisions of Company bylaws which set a limit of 6 Board members on the Company Board of Directors, and since two of them are independent Board members, the Company in actual fact has two independent Board members, hence the Board of Directors did not see fit to amend the Company bylaws.
The Company is currently served by two independent Board members: Mr. MOSHE BARAZ and Mr. YOEL SELA – both experts having accounting and financial skills.

2.12 Remuneration of senior corporate officers

The Company sees considerable importance in the significant, continued contribution of the senior officers listed in the table in section 4.7.1 of this report, and believes that a direct link exists between their remuneration and Company success. The Company regards the aforementioned officers as an important element of its operations, and the Company Board of Directors has determined that the aforementioned remuneration

reflects fair, reasonable and appropriate compensation for their valuable services, which is in line with customary remuneration at public companies of similar sized operations to the Company's.

2.13 Details on the process of approval of the Company's financial statements

The Company's financial statements are prepared by the Company's CFO. The statements are reviewed (and in the relevant cases even audited) by the Company's auditor, who is given complete access to all the data and information in the Company, including meetings with Company employees and directors, as required by him. After a review/audit has been conducted by the auditor, the reports are transferred to members of the Company's Board of Directors, for review prior to and in preparation for the discussion in Board of Directors' meetings designated to that end. The Company views its Board of Directors as the entity in charge of the ultimate control in the matter of the Company's financial statements. The members of the Board of Directors and their respective duties in the Company are:

.1 Mr. HAIM SHANI – Chairman of the Board of Directors and CEO of the Company, and a Board member having professional qualifications.

.2 Mrs. BAREKET SHANI – A Board member having professional qualifications, Vice President and Head of Human Resources, member of the Credit and Investment Committee and the Securities Committee of the Company's Board of Directors.

.3 ZVI LIVNE, CPA – Board member having accounting skills and member of the Audit Committee.

.4 YOEL SELA, CPA – Independent Board member having accounting skills, member of the Audit Committee and of the Investment Committee of the Company Board of Directors.

.5 MOSHE BARAZ, CPA – Independent Board member having accounting skills, member of the Audit Committee and the Securities Committee of the Company's Board of Directors.

After Board members have read the financial statements, a Board of Directors' meeting is convened for the purpose of presenting and discussing the financial statements. At this meeting, Company management reviews the main data of the financial statements. The Company's auditor is also present in the meeting, to reviews certain aspects of the reports, accounting issues relating to the financial statements and the process of review and audit conducted by him in the Company, and then answers questions directed to him by members of the board (together with the Company's CEO and CFO, who answer the questions directed at them). Under the Board of Directors' discussion, comments and/or clarifications or requests are often made for additional data, which are then reflected in the financial statements. At the end of the discussion, the financial statements are subject to approval by vote.

_____	_____
HAIM SHANI, CEO and Chairman of the Board of Directors	ZVI LIVNE, Board member
March 30, 2009	March 30, 2009

UNITRONICS (1989) (R"G) LTD.

Financial Statements
December 31,2008

Unitronics (1989) (R"G) Ltd.

Financial Statements

December 31, 2008

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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

Independent Auditors' Report
To the shareholders of Unitronics (1989) (R"G) Ltd.

We have audited the accompanying consolidated balance sheets of Unitronics (1989) (R"G) Ltd. (hereinafter the "Company"), as at December 31, 2007 and 2008, and the consolidated statements of operations, of shareholders' equity and of cash flows for each of the two years the last of which ended December 31, 2008. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of a subsidiary whose assets constitute 10% and 6% of the total consolidated assets as at December 31, 2007 and 2008, respectively, and whose revenues constitute 17% and 19%, of the total consolidated revenues for the years ended December 31, 2007 and 2008, respectively. The financial statements of the subsidiary were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts emanating from the financial statements of the subsidiary, is based on the opinions of the other auditors.

We conducted our audits in accordance with auditing standards, generally accepted in Israel, including those prescribed under the Auditors Regulations (Auditor's Mode of Performance) 1973. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and Management of the Company, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the above mentioned other auditors, the above financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as at December 31, 2007 and 2008, and the results of operations, changes in shareholders' equity and cash flows of them for each of the two years the last of which ended December 31, 2008, in conformity with International Financial Reporting Standards (IFRS).

Amit, Halfon
Certified Public Accountants (Israel)

March 30, 2009

Unitronics (1989) (R"G) Ltd.
Consolidated Balance Sheets

	Note	December 31, 2008 Convenience translation into EURO, (unaudited) (1)	December 31, 2008 (in thousands) NIS	December 31, 2007 NIS
Current assets				
Cash and cash equivalents	3	2,748	14,559	16,085
Marketable securities	4	5,229	27,700	38,617
Accounts receivable -				
Trade	5	2,132	11,295	13,995
Other		79	416	249
Inventory	6	2,515	13,326	12,980
Inventory - work in progress	7	-	-	319
		12,703	67,296	82,245
Non-current assets				
Long-term deposits		25	134	444
Property and equipment, net	8	3,437	18,208	18,724
Prepaid leasehold rights expenses, net		567	3,002	3,072
Intangible assets, net	9	2,602	13,781	8,415
		6,631	35,125	30,655
		19,334	**102,421**	**112,900**

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

Approved: March 30, 2009

(1) See Note 1F.

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

Unitronics (1989) (R"G) Ltd.
Consolidated Balance Sheets

	Note	December 31, 2008 Convenience translation into EURO, (unaudited) (1)	December 31, 2008 (in thousands) NIS	December 31, 2007 NIS
Current liabilities				
Current maturities of non current liabilities	10	3,198	16,941	11,775
Accounts payable -				
Trade	11	1,802	9,545	12,630
Other	12	2,459	13,029	8,230
Warrants		3	18	211
Embedded derivatives		41	215	-
		7,503	39,748	32,846
Non current Liabilities				
Loans from the Banks and others	13	1,364	7,228	8,578
Convertible bonds	14A	1,490	7,896	15,609
Bonds	14B	4,917	26,046	30,941
Conversion option of convertible bonds		-	-	1
Liabilities for benefits to employees, net	15	152	803	161
		7,923	41,973	55,290
Contingent liabilities, mortgages and guarantees	16			
Shareholders' equity	17			
Share capital		66	352	352
Capital reserve from share-based payments		61	326	323
Share premium		9,486	50,250	50,250
Capital reserve from translation of foreign operations		(138)	(733)	(584)
Company shares held by the company		(553)	(2,931)	(2,853)
Accumulated loss		(5,014)	(26,564)	(22,724)
		3,908	20,700	24,764
		19,334	**102,421**	**112,900**

(2) See Note 1F.

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

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

	Note	For the year ended December 31, 2008	For the year ended December 31, 2008	2007
			(in thousands)	
		Convenience translation into EURO, (unaudited) (1)	NIS	
Revenues	25	15,049	79,720	102,268
Cost of revenues	18	10,147	53,756	70,865
Gross profit		4,902	25,964	31,403
Development expenses, net	19	306	1,617	1,647
Selling & marketing expenses	20	2,350	12,449	13,567
General & administrative expenses	21	963	5,101	6,576
Operating profit		1,283	6,797	9,613
Financing Income	22A	54	286	4,695
Financing expenses	22B	1,892	10,029	8,650
Profit (loss) for the year		(555)	(2,946)	5,658
Profit (loss) per 1 ordinary share NIS 0.02 par value (NIS)	26	(0.050)	(0.267)	0.511

(1) See Note 1F.

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

Unitronics (1989) (R"G) Ltd.
Consolidated Statements of Shareholders' Equity

	Share capital	Capital Reserve from share-based payments	Share premium	Capital reserve from translation of foreign operations	Company shares held by the company	Accumulated loss	Total
	NIS, in thousands						
Balance at January 1, 2007	352	279	50,250	-	(2,640)	(28,723)	19,518
Purchase of company shares by the company	-	-	-	-	(213)	-	(213)
Benefit arising from warrants granted	-	44	-	-	-	-	44
Translation of foreign operation	-	-	-	(584)	-	-	(584)
Actuarial profits	-	-	-	-	-	341	341
Profit for the year	-	-	-	-	-	5,658	5,658
Balance at December 31, 2007	352	323	50,250	(584)	(2,853)	(22,724)	24,764
Purchase of company shares by the company	-	-	-	-	(78)	-	(78)
Benefit arising from warrants granted	-	3	-	-	-	-	3
Translation of foreign operation	-	-	-	(149)	-	-	(149)
Actuarial Losses	-	-	-	-	-	(894)	(894)
Loss for the year	-	-	-	-	-	(2,946)	(2,946)
Balance at December 31, 2008	352	326	50,250	(733)	(2,931)	(26,564)	20,700

	Share capital	Capital Reserve from share-based payment	Share premium	Capital reserve from translation of foreign operations	Company shares held by the company	Accumulated loss	Total
	Convenience translation into EURO, in thousands (unaudited) (1)						
Balance at January 1, 2008	66	61	9,486	(110)	(538)	(4,290)	4,675
Purchase of company shares by the company	-	-	-	-	(15)	-	(15)
Benefit arising from warrants granted	-	(*) -	-	-	-	-	(*)-
Translation of foreign operation	-	-	-	(28)	-	-	(28)
Actuarial Losses	-	-	-	-	-	(169)	(169)
Loss for the year	-	-	-	-	-	(555)	(555)
Balance at December 31, 2008	66	61	9,486	(138)	(553)	(5,014)	3,908

(1) See Note 1F.
(*) Less then 1,000 Euro.

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

Unitronics (1989) (R"G) Ltd.
Consolidated Statements of Cash Flows

	For the year ended December 31,	For the year ended December 31,	
	2008	2008	2007
		(in thousands)	
	Convenience translation into EURO, (unaudited) (1)	NIS	
Cash flows from operating activities			
Profit (loss) for the year	(555)	(2,946)	5,658
Adjustments necessary to show the cash flows from operations (Appendix A)	2,568	13,607	2,201
Cash flows provided by operating activities	2,013	10,661	7,859
Cash flows for investing activities			
Sale of (investment in) marketable securities, net	1,587	8,405	(9,030)
Purchase of property and equipment	(225)	(1,191)	(1,997)
Investment in long-term deposits	-	-	(201)
Repayment of long-term deposits	20	106	73
Investment in intangible assets	(1,452)	(7,689)	(8,022)
Cash flows used in investing activities	(70)	(369)	(19,177)
Cash flows for financing activities			
Repayment of long-term loans	(191)	(1,010)	(1,229)
Repayment of convertible bonds	(2,006)	(10,629)	(10,723)
Purchase of company shares by the company	(15)	(78)	(213)
Cash flows used in financing activities	(2,212)	(11,717)	(12,165)
Translation differences in respect of foreign operations cash balances	(19)	(101)	(338)
Change in cash and cash equivalents	(288)	(1,526)	(23,821)
Cash and cash equivalents at beginning of year	3,036	16,085	39,906
Cash and cash equivalents at end of year	2,748	14,559	16,085

(1) See Note 1F.
(2) Less then 1,000 Euro.

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

Unitronics (1989) (R"G) Ltd.
Consolidated Statements of Cash Flows

	For the year ended December 31,	For the year ended December 31,	
	2008	2008	2007
		(in thousands)	
	Convenience translation into EURO, (unaudited) (1)	NIS	
Appendix A - Adjustments necessary to show the cash flows from operations			
Depreciation and amortization	1,112	5,890	4,561
Loss from marketable securities, net	474	2,512	803
Benefit arising from warrants granted	(*) -	3	44
Increase (decrease) in liabilities for benefits to employees	(48)	(253)	10
Reevaluation of warrants and conversion option of convertible bonds	(37)	(194)	(2,620)
Exchange rate changes of long-term loans and convertible bonds	200	1,057	211
Reevaluation of Embedded derivatives	41	215	(103)
Decrease in accounts receivable - trade	517	2,737	2,799
Decrease in accounts receivable - other	7	38	394
Decrease (increase) in inventory	(80)	(426)	774
Decrease (increase) in inventory - work in progress	60	319	(125)
Increase (decrease) in accounts payable - trade	(584)	(3,093)	517
Increase (decrease) in accounts payable - other	906	4,802	(5,064)
	2,568	13,607	2,201
Appendix B - Additional information			
Cash paid during the year for:			
Interest	788	4,173	5,376
Taxes on income	20	108	108
Cash received during the year for:			
Interest	249	1,319	2,480

(1) See Note 1F.
(*) Less then 1,000 Euro.
The notes to the financial statements form an integral part thereof.

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

Note 1 - General

A. The Company was incorporated in August 1989. On November, 1999 the company completed an initial public offering of 1,600,000 ordinary shares on the Euro. NM in Belgium (Euronext). On May, 2004 the company completed a public offering of 800,000 ordinary shares, 35,000,000 convertible bonds and 1,000,000 warrants on the Tel-Aviv stock exchange.

B. Details of the subsidiaries, their activities and the rate of holdings therein:

1. Unitronics Inc. (hereinafter "Unitronics U.S.A").
   The company holds 100% of the equity and control of Unitronics U.S.A. Unitronics U.S.A was established in the United States of America in 2001 by the company in order to further the marketing, sale and distribution of its range of products in the U.S.A. Unitronics U.S.A commenced its operations in June 2001. In 2006 Unitronics U.S.A. started to operate in the projects area.

2. Unitronics building management and maintenance (2003) Ltd. (hereinafter "Unitronics building").
   The company holds 100% of the equity and control of Unitronics building. Unitronics building was established in 2003 by the company in order to manage and maintain the companies building. Unitronics building commenced its operations in January 2004.

C. The Company designs, develops, manufactures and markets Programmable Logic Controllers - which are specialized computer-based electronic devices used in an automation process to control machinery and other systems, and factory automation software solutions and system integration projects.

D. Definitions
The company - Unitronics (1989) (R"G) Ltd
Consolidated companies - companies under the company's control (as defined in IAS27) which their financial statements consolidated with the company.
Related parties - as defined in IAS24.

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

As of	Israeli CPI	Exchange rate of one Euro	Exchange rate of one U.S. dollar
	Points (*)	NIS	NIS
December 31, 2008	198.42	5.2973	3.802
December 31, 2007	191.15	5.6592	3.846
Change during the period	**%**	**%**	**%**
December 31, 2008	3.80	(6.39)	(1.14)
December 31, 2007	3.40	1.71	(8.97)

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

F. Convenience translation into EURO

For the convenience of the reader, the NIS amounts for the last reported period have been translated into EURO by dividing each NIS amount by the representative rate of exchange of the EURO as at December 31, 2008 (EURO 1 = NIS 5.2973).

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

Note 2 - Significant Accounting Policies

A. Basis of presentation of the financial statements

The Company's financial statements were prepared on the basis of cost, excluding derivative and financial instruments, which are measured at fair value through the statement of operations, and liabilities for benefits to employees which are measured in accordance with the provisions of IAS 19 (see (P) below).

Preparation of the financial statements

These financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter: "IFRS"). These Standards include:

1. International Financial Reporting Standards (IFRS).

2. International Accounting Standards (IAS)

3. Clarifications to the International Financial Reporting Standards (IFRIC) and to the International Accounting Standard (SIC).

These financial statements are the Company's first annual financial statements in accordance with IFRS Standards. The Company first adopted the IFRS in 2008; therefore, the transition date to reporting in accordance with IFRS is January 1, 2007.

Prior to adopting the IFRS, the Company prepared its financial statements in accordance with generally accepted accounting principles in Israel. The Company's last annual financial statements, in accordance with generally accepted accounting principles in Israel, were prepared as at December 31, 2007 and for the year then ended.
See Note 28 regarding the reconciliation between reporting in accordance with generally accepted accounting principles in Israel, and reporting in accordance with IFRS.

Consistent accounting polices

The accounting policies adopted in the financial statements have been adopted on a consistent basis for all the presented periods.

Consolidated financial statements

The consolidated financial statements include the statements of companies in which the Company has control (subsidiaries). Control exists when the Company has the ability, directly or indirectly, to outline the financial and operative policies of the controlled company. When examining control, the effect of potential voting rights, which can be exercised on the balance sheet date, is taken into account. The consolidation of the financial statements is carried out from the date of achieving control, up to the date on which the control is discontinued. Significant mutual balances, transactions and profits and losses resulting from transactions between the companies in the Group, have been fully cancelled in the consolidated financial statements.
The financial statements of the Company and its subsidiaries are prepared for identical dates and periods. The accounting policies in the financial statements of the subsidiaries have been consistently applied with those applied in the Company's financial statements.

Note 2 - Significant Accounting Policies (cont'd)

B. Assumptions and estimates

At the time of preparation of the financial statements, management is required to use its discretion and to be assisted by estimates, evaluations and assumptions affecting the implementation of the accounting policies and the amounts reported of assets and liabilities, revenues and expenses. The estimates and assumptions on which they are based are reviewed on a current basis. Changes in accounting estimates are recorded during the period in which the change in the estimate took place.

The following are the main assumptions made in the financial statements in connection with uncertainty on the balance sheet date, and critical estimates calculated by the Company and where significant changes in the estimates and assumptions are likely to change the values of assets and liabilities in the financial statements in the next year of report:

Benefits for severance pay and other benefits after retirement

Liabilities for defined benefit plans after employment are determined using actuarial evaluation techniques. The calculation of a liability is connected with determining assumptions, inter alia, regarding the rate of discounting, the yield rate expected on assets, the rate of increase in wages, and the rate of employee turnover. There is significant uncertainty regarding these estimates due to the plans being long-term. See additional information in note 15.

Development costs

Development costs are discounted in accordance with the accounting principles set forth in note 2(k). In order to determine the amounts earmarked for discounting, management estimates, inter alia, the cash flows expected to result from the asset, the discounting rates and the expected period of benefits. See also note 9.

C. Functional currency and foreign currency

1. Functional currency
   The financial statements are prepared in NIS, the Company's functional currency, which is the currency that best reflects the economic environment and transactions in which the Company operates.
   The functional currency was determined separately for each subsidiary; and according to this currency, the financial condition and results of operations of the subsidiaries are measured. When the functional currency of the subsidiary is different from that of the Company, the subsidiary comprises foreign operations, where the data in the financial statements are translated, in order to include them in the Company's financial statements as follows:

   a. Assets and liabilities on every balance sheet date (including comparative figures) are translated according to the closing rates of exchange on every balance sheet date. Goodwill and all adjustments of fair value to the book value of the assets and liabilities on the date of acquiring the foreign operations are handled as assets and liabilities of foreign operations and translated according to the closing rate on every balance sheet date.
   b. Revenues and expenses for all periods are presented in the statement of operations (including comparative figures) are translated according to the average rates of exchange in all of the presented periods; but in those cases where there were significant fluctuations in the rates of exchange, revenues and expenses were translated according to the rates of exchanges that existed on the dates of the translations themselves.
   c. Share capital, capital reserves and other capital movements are translated according to the rates of exchanges on the date of their creation.

Note 2 - Significant Accounting Policies (cont'd)

C. Functional currency and foreign currency (cont'd)

1. Functional currency (cont'd)

d. The retained earnings balance is translated based on the opening balance translated according to the rates of exchange at that time, and the relevant additional movements during the period, translated as mentioned in clauses (b) and (c) above.
e. All rates of exchange differences created are classified as a separate item in shareholders' equity, in the capital reserve "Adjustments from translation of financial statements of foreign operations".

Loans which are essentially part of the investment of the foreign operations and are handled as part of the investment, where the linkage differences resulting from these loans are posted at that time to the statement of operations.
Rates differentials for loans in foreign currency, which are hedging of a net investment of foreign operations, are posted, less the tax effect, to shareholders' equity.
On the date of realizing the net investment, translation differences included in the framework of the capital reserve, as mentioned above, are recorded to the statement of operations.

2. Transactions, assets and liabilities in foreign currency

Transactions denominated in foreign currency are recorded on their first recognition at the rate of exchange on the date of the transaction. Financial assets and liabilities denominated in foreign currency as translated to shekels according to the rate of exchange on the balance sheet date. Rate of exchange differences are posted to the statement of operations. Non monetary assets and liabilities are translated to shekels according to the rate of exchange on the date of the transaction. Non monetary assets and liabilities denominated in foreign currency and presented at their fair value are translated to shekels according to the rate of exchange on the date on which the fair value was determined.

D. Cash and cash equivalents

Cash and cash equivalents include short-term highly liquid investments, which can be converted to a fixed amount of cash, and where the exposure to a change in their value is insignificant. These investments will be considered as cash where the original period of redemption does not exceed three months from the date of the investment in them and they are not restricted.

E. Financial instruments – classification and measurement

A financial instrument is any contract which creates both a financial asset for one entity and a financial liability or capital instrument for another entity.
A hybrid financial instrument is a contract that includes a hosting contract being a non derivate host contract and an embedded derivative.

1. The accounting treatment of financial instruments is based on their classification to one of the four following groups:
- A financial assets measured at fair value through the statement of operations.
- Investments held for redemption.
- Loans and other receivables.
- Financial assets available for sale.

Note 2 - Significant Accounting Policies (cont'd)

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

1. The accounting treatment of financial instruments is based on their classification to one of the four following groups (cont'd)

a. Financial assets measured at fair value through the statement of operations

Financial assets measured at fair through the statement of operations, include financial assets held for trading and financial instruments earmarked on their initial recognition to be measured at fair value through the statement of operations.
Financial assets are classified as held for trading if purchased mainly for the purpose of sale or repurchase in the short term, or which are part of a portfolio of identified financial instruments measured together for which there is proof of a plan of action to produce profits in the short term, or which are not intended as a financial instrument (included an embedded derivate which can be separated from the host contract).
An entity can earmark a financial asset or a financial liability to this group, if this relates to a hybrid financial instrument, which meets the conditions detailed in the following paragraph, or the result of its use is more relevant information, due to a reduction in the lack of consistency in recognition or measurement (mismatch), or this relates to a group of financial instruments managed and valued on the basis of fair value according to a documented policy of risk management or investment strategy.
Regarding a hybrid financial instrument, the fully combined contract, can be earmarked as a financial instruments measured at fair value through the statement of operations, excluding in the event of an embedded derivative which does not cause a significant change in cash flows or when it is clear that the separation of the embedded instrument is forbidden.
Profits or losses from financial instruments included in this group are recorded to the statement of operations on their accrual.

b. Investments held to redemption

Investments held to redemption are financial assets which are non derivative and bear fixed payments or which can be determined, and have fixed redemption dates and the Company intends to hold them until redemption. After initial measurement, which is made at the fair value of the investments, the investments held for redemption are measured at to their reduced cost. This cost is calculated according to the amount initially recognized, less repayment of principal, plus or less accumulated reduction by the effective interest method for differences between the amount first recognized and amount which is repayable less a provision for an impairment in value. This calculation includes all payments required, received or made between the parties to the contract which are an integral part of the contract and affect the effective interest, the costs of the transaction all other payments of premium and discounts. Profits and losses are recorded to the statement of operations on the date of withdrawing the investments or in the case for a provision for impairment in value, and in the framework of a methodical amortization.

Note 2 - Significant Accounting Policies (cont'd)

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

1. The accounting treatment of financial instruments is based on their classification to one of the four following groups (cont'd)

c. Loans and receivables

Loans and receivables are financial assets with fixed payments which can be determined, and are not traded in an active market. After the initial measurement, the loans and receivables are measured at depreciated cost by the effective interest method, less provisions for any impairment in value. This cost is calculated according to the amount first recognized less repayment of principal, plus or less accumulated reduction by the effective interest method for differences between the amount first recognized and amount which is repayable less the provisions for an impairment in value. This calculation includes all payments required, which were received or were made between the parties to the contract which are an integral part of the contract and affect the effective interest, the costs of the transaction all other payments of premiums and discounts. Profits and losses are recorded to the statement of operations on the date of withdrawing the investments or impairment in value is recorded for them, and in the framework of a methodical amortization.

d. Financial instruments available for sale

Financial instruments available for sale are financial assets which are not classified to one of the above three groups. After initial measurement, financial assets available for sale are measured at their fair value. Profits or losses not yet realized are recorded directly to shareholders' equity to the 'reserve for Unrealized Profits, net'. On the date of withdrawing the investment, the profit or loss accrued, and which were recorded in the past in the framework of 'capital reserve' directly to shareholders' equity, will be recorded to the statement of operations. Effective interest revenues and expenses and rate of exchange differences for investments are recorded to the statement of operations by the effective interest method. Dividends received for investments will be recorded to the statement of operations as 'dividends received' on the date of entitlement to the payment.

2. Financial liabilities

a. Financial liabilities presented at depreciated cost

Loans and interest bearing credit are first recognized at their fair value less costs related directly to the transaction (for example: the cost of raising a loan). After initial recognition, the loans and the interest bearing credit are presented at discounted cost using the effective interest method, taking into account the directly related costs of the transaction. Profits and losses are recognized in the statement of operations at the time of decreasing the loan and as a result of the current amortization.

b. Financial liabilities measured at fair value through the statement of operations

Financial liabilities measured at fair value through the statement of operations include financial liabilities held for trading and financial liabilities earmarked on their first recognition to be presented at fair value. Changes in fair value are recorded to the statement of operations.

Regarding a hybrid financial instrument fully earmarked to fair value through the statement of operations, see 1(a) above.

Note 2 - Significant Accounting Policies (cont'd)

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

3. Fair value

Fair value of investments traded in active financial markets is determined by the market prices on the balance sheet date. Investments which do not have an active market, fair value is determined by accepted evaluation methods. These methods include referring to the terms of the transactions recently made under market conditions; referring to the market value of another instrument similar in nature, analysis of discounted cash flows or other costing models.

4. Financial instruments disposal

A financial asset (or part of a financial asset from a group of similar financial assets, if relevant) is disposal when:

- The contractual rights for receiving cash flows from the financial asset have expired; or
- The Company transferred its rights to receive cash flows from the asset; or
- The Company did not transfer its rights to receive cash flows from the asset, but the Company has an obligation to fully pay without any significant delays to a third party according to the engagement (pass-through) and transferred most of the risks and benefits in the asset; or
- The Company did not transfer most of the risks and benefits connected with the asset, and did not keep most of the risks and benefits connected with the asset, but the Company did transfer the control of the asset. If the control of the asset kept by the company, the company will continue recognizing the asset according to the continuing involvement of the Company in the asset.

Financial liability (or part of financial liability) will remove if, and only if, it extinguished - i.e. when the liability defined in a contract paid, cancelled of expired.

5. Embedded derivatives

The Company examines the existence of an embedded derivative and the need for separating it at the time that it becomes, for the first time, a party to an engagement. Revaluation of an embedded instrument is done only where there is a change in the engagement which affects the cash flows from the engagement.

Embedded derivatives are separated from the host contract and handled separately if, and only if, all the following conditions exist: the economic characteristics and risks inherent in the host contract and in the embedded derivatives are not connected clearly and strongly, a separate instrument with similar characteristics of those of the embedded instrument would meet the definition of a derivative, and the hybrid instrument in totality is not measured at fair value through the statement of operations.

6. Complex financial instruments issued by the Company

Complex financial instruments issued by the Company are separated to the component and the liability component included in the complex instrument. The liability component of the complex instrument is first recognized at fair value of a similar liability which does not have a conversion component. The capital component is first recognized as the difference between the fair value of the whole complex instrument and the fair value of the liability component. Direct transaction costs, including expenses from issuing the instrument, are associated with the liability component and to the capital component, proportionally with their book value.
After initial recognition, the liability component of a complex instrument is measured by the reduced cost method, which is amortized using the effective interest method, unless it is measured at fair value through the statement of operations. The capital component of a complex instrument is not re-measured after initial recognition.

Note 2 - Significant Accounting Policies (cont'd)

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

7. Issue of a parcel

On an issue of securities in a parcel, the consideration received (before issue expenses) is allotted to the components of the securities issued in a parcel according to the following order of allotment: fair value is determined first for financial derivatives (such as warrants with an exercise addition in a currency which is different from the Company's functional currency) and other financial instruments which are periodically presented at fair value, thereafter the fair value for the financial liabilities and complex instruments (such as convertible bonds) which are not periodically presented at fair value, but at present value. The consideration allotted for capital instruments is determined as residual value, according to the difference obtained between the total consideration and the relevant consideration allotted as mentioned above. The issue expenses are allotted to every component according to the ratio of amounts determined for every component, as mentioned above, less the tax effect – if there is one regarding capital instruments. After such an allotment, every component is handled according to its contractual nature (financial liability or capital instrument).

8. Impairment in value of financial instruments

The company examines on every balance sheet period whether there was impairment in value of financial assets or a group of financial assets.

Assets recorded at depreciated cost
If there is objective proof that there is a loss from an impairment in value for loans and receivables presented at depreciated cost, the amount of the loss is recorded to the statement of operations as the difference between the book amount of the assets and the present value of estimated future cash flows (which do not include future credit losses not yet accrued), which are discounted according to the original effective rate of interest of the financial asset (fixed rate of interest calculated at the time of the initial recognition). The book value of the asset is reduced by recording a provision; the amount of the loss is recorded to the statement of operations.

Financial instruments available for sale

If there is objective proof that there is a loss from an impairment in value, the amount of the loss is measured as the difference between the cost (less payments of principal and any amortization), and between the fair value less any loss from an impairment in value recorded in the past to the statement of operations. This loss is transferred from shareholders' equity to the statement of operations. During consecutive periods, the cancellation of the loss from the impairment in value, regarding capital instruments, is not recorded to the statement of operations, and the cancellation of the loss from the impairment in value for debt instruments is recorded to the statement of operations, if the increase in the fair value of the instrument can be objectively related to an event which occurred after the loss from the impairment in value was recorded to the statement of operations.

F. Provision for doubtful debts

The provision for doubtful debt is determined on a specific basis for debts whose collection, in the Company's management's opinion, is in doubt. The debts of customers whose value has declined will be withdrawn on the date on which it is decided that these debts are not collectible.

Note 2 - Significant Accounting Policies (cont'd)

G. Inventory

Inventory is measured at the lower of cost or net realizable value. Cost of inventory includes the purchasing cost of the inventory and the costs of bringing it to its present location and condition. The net realizable value is the estimated selling price in the normal course of business, less estimated costs to complete and costs likely to be incurred in making the sale.

The cost of the inventory is determined as follows:
- Raw materials and packaging - by the weighted moving average method.
- Goods in process - on the basis of average cost which includes materials, labor, and other direct and indirect manufacturing expenses, less completion costs.
- Finished goods - on the basis of average cost which includes materials, labor, and other direct and indirect manufacturing expenses.

The Company periodically examines the condition of the inventory and its age, and makes provisions for slow-moving inventory accordingly. During certain periods where production is not at a normal output, the cost of inventory does not include other fixed and overhead costs, over and above those required for normal output. The costs, as mentioned, which were not loaded, are recorded as an expense in the statement of operations during the period in which they accrued. Furthermore, the cost of inventory does not include exceptional amounts of cost of materials, labor, and others resulting from inefficiency.

H. Treasury stock

The Company's shares held by the Company are presented at cost which is set off from the Company's shareholders' equity. Profits or losses from the acquisition, sale, issue or cancellation of treasury stock are recorded directly to shareholders' equity.

I. Leases

The tests for classifying leasing as financial or operative is based on the nature of the agreements and are examined on the date of the engagement according to the rules set forth in IAS 17 - "leases".

1. Operative lease

Leasing agreements in which all the risks and benefits inherent in the ownership of the asset are not really transferred, and this is classified as operative leasing. Initial direct costs accrued are added to the book cost of the asset leased and recognized over the leasing period.
Leasing of land from the Israel Lands Administration is handled as operative leasing when the amount relating to the land in the leasing is capitalized and presented in the balance sheet as 'prepaid leasehold rights expenses' and is recognized as an expense in the statements of operations by the straight-line method over the leasing period (49 years).

2. Financial lease

Leasing agreements where all the risks and benefits connected with ownership of the leased asset have been transferred to the Company - are classified as financial leasing. The leased asset is measured at the beginning of the lease period at the lower of fair value of the leased asset or at the present value of the minimum leasehold payments. A liability for leasehold payments is presented at its present value when the leasehold payments are allocated between financial expenses and repayment of the liability for the leasing, by the effective interest method.

After initial recognition, the leased asset is handled according to the accounting principles prevailing regarding this asset (see clause (J) below).

Note 2 - Significant Accounting Policies (cont'd)

J. Fixed assets

Items of fixed assets are presented at cost plus direct purchasing costs less accumulated depreciation and less losses from accrued impairment in value and less investment grants received for them, and do not include expenses for current maintenance.
Components of a fixed asset item, with a significant cost compared to the total cost of the item, are depreciated separately by the components method.
Depreciation is calculated at equal annual rates by the straight-line method over the expected useful life of the asset. The expected useful life of items of fixed assets is as follows:

	%
Buildings(*)	2
Machinery and equipment	10-33 (mainly 33%)
Vehicles	15
Office furniture and equipment	6-33 (mainly 7%)

(*) Regarding the land component, see (I) above.

Leasehold improvements are depreciated by the straight-line method over the period of the lease or according to the estimated life period of the assets, whichever shorter.
The residue value and useful life of every asset is examined at least every end of year, and changes are handled as a change in the accounting estimate by the 'from here on' method. Regarding examination of impairment in value of fixed assets, see (L) below.
Depreciation of fixed assets is discontinued on the earlier of the time at which the asset is classified as held for sale, and the time at which the asset is withdrawn. An asset is withdrawn from the books on the date of sale or when no economic benefits are expected from its use. Profit or loss from withdrawing an asset (calculated as the difference between the net consideration from the withdrawal and the depreciated book cost) is included in the statements of operations during the period in which the asset is withdrawn.

K. Intangible assets

Intangible assets which are purchased separately are measured on initial recognition at cost plus the direct acquisition costs. After initial recognition, intangible assets are presented at cost less accumulated amortization and less losses from accrued impairment in value.

In management's opinion, the intangible assets have a defined lifespan. The assets are amortized over their useful economic lifespan and are examined for any impairment in value when there are signs pointing to impairment in value of an intangible asset. The period of amortization and the method of amortization for an intangible asset, with a defined useful lifespan, are examined at least once a year. A change in the useful lifespan or in the pattern of expected consumption of economic benefits expected to result from the asset will be handled as a change in the period or a change in amortization, respectively, and reported as a change in accounting estimate. Amortization expenses for intangible assets, with a defined useful lifespan, are recorded to the statements of operations.

Software
Acquired licenses for computers software are recognized as an asset according to the acquisition costs and related costs. Depreciation is calculated at equal annual rates by the straight-line method over the expected useful life of the asset.

Note 2 - Significant Accounting Policies (cont'd)

K. Intangible assets (cont'd)

Research and development expenses

Expenditure on research is recognized as an expense when it is incurred. Expenditure arising from development (relating to design and examination of new or improved products) is recognized if, and only if, an entity can demonstrate all of the following:

a. The technical feasibility of completing the intangible asset so that it will be available for use of sale.
b. Its intention to complete the intangible asset and use of sell it.
c. Its ability to use or sell the intangible asset.
d. How the intangible asset will generate probable future economic benefits.
e. The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
f. Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other development costs, which not meat the above conditions, are recognized as expenses when it is incurred. Expenditure on an intangible item that was initially recognized as an expense shall not be recognized as part of the cost of an intangible asset at a later date. Capitalized development expenses are recognized as an intangible asset. Amortization shall begin when the asset is available for use and is calculated at equal annual rates by the straight-line method over the expected useful life of the asset.

Impairment in value of development assets shall be handled according to IAS36 "impairment of assets" (see (L) below).

Amortization

The useful lifespan of intangible assets is as follows:

	Years
Software	3
Patents and licenses	5
Development costs	5

L. Impairment in value of non financial assets

The Company examines the need for examining impairment in value of the book value of all non financial assets in the balance sheet, excluding inventory and deferred tax assets when there are signs, as a result of events, of changes in circumstances pointing to the book value not being recoverable. In those cases where the book value of non financial assets exceeds their recoverable value, the assets are reduced to their recoverable value. The recoverable value is the higher of the net selling price and the value of use. In evaluating the use value, future expected cash flows are discounted at a rate of discounting before tax, which reflects the specific risks of every asset. For an asset which does not create independent cash flows, the recoverable amount is determined for the unit which creates cash flows to which the asset belongs.

Losses due to impairment in value are recorded to the statements of operations.

M. Government grants

Government grants are recognized when there is a reasonable certainty that the grants will be received and that the Company will meet all the relevant conditions. Government investment grants relating to assets such as fixed assets are presented after setting them off from the assets for which the grants were received.

Note 2 - Significant Accounting Policies (cont'd)

M. Government grants (cont'd)

Government grants received from the Chief Scientist in Israel, for support of research and development activities, which includes an undertaking to pay royalties to the State, are contingent on making future sales resulting from the development, and are recognized on the date of their receipt as a liability if economic benefits are expected as a result of the research and development activities resulting in sales entitling the State to royalties. Amounts paid as royalties are recognized as a settlement on account of the liability. When no such economic benefit is expected, receipt of the grants is recognized as a reduction in Research & Development expenses in the statements of operations. In such a case, the liability to pay royalties is handled as a contingent liability in accordance with IAS 37, until the date on which the liability is recognized when the above conditions exist.

On every balance sheet date, the Company examines whether there is a reasonable certainty that the liability, fully or partly, will not be repaid (as the Company will not be required to pay royalties) based on the best possible estimate of future sales, and if such exists, the liability is withdrawn and profit is recognized in the statements of operations. If at a later period the future estimated sales show that the said reasonable certainty does not exist, the suitable liability reflecting the forecasted payment of royalties is recognized and, concurrently, the research & development expense is recognized in the statements of operations.

N. Taxes on income

Taxes on income in the statement of operations include current and deferred taxes. Tax expenses for current taxes or deferred taxes are posted to the statement of operations, unless they relate to items posted directly to shareholders' equity; in those cases even tax effect also is posted to the relative item in shareholders' equity.

1. Current taxes
   The liability for current taxes is determined while using the tax rates and tax laws legislated or where legislation has in practice been completed by the balance sheet date, and adjustments required in connection with the tax liability for payment on account of previous years.

2. Deferred taxes
   Deferred taxes are calculated for temporary differences between the amounts included in the financial statements and amounts taken into account for tax purposes, excluding a limited number of exceptions.
   Deferred tax balances are calculated at the tax rate expected to apply when these taxes are posted to the statement of operations or to shareholders' equity, based on the tax laws legislated or whose legislation has in practice been completed by the balance sheet date. The amount of deferred taxes in the statement of operations expresses the changes in the above balances during the period of report.

   In calculating deferred taxes, taxes which would apply in the event of realizing investments in investee companies, are not taken into account as long as the sale of investments in investee companies is not expected in the foreseeable future. Furthermore, deferred taxes for the distribution of profits as dividends by investee companies are not taken into account due to the Company's policy not to initiate the distribution of a dividend which results in any additional tax liability.

   Deferred tax assets and deferred tax liabilities are presented in the balance sheet as non current assets and non current liabilities, respectively. Deferred taxes are set off if there is a legal right which can be enforced enabling the set-off of a current tax asset against a current tax liability and the deferred taxes relate to the same entity which owes taxes to the same authority.
   Deferred taxes receivable are recorded when there is reasonable basis to assume that there will be profits in the future enabling the utilization of the tax benefit.

Note 2 - Significant Accounting Policies (cont'd)

O. Share-based payments

Employees and other service providers of the Company are entitled to benefits by way of a share-based payment in consideration for capital instruments (hereinafter – transactions settled with capital instruments).

Transactions settled with capital instruments

The cost of transactions settled with capital instruments with employees is measured at the fair value of the capital instruments granted on the date of their granting. Fair value is determined through the use of the acceptable costing model. Regarding other service providers, the cost of the transactions is measured at fair value of the goods or services received in consideration for the capital instruments. In those situations where it is not possible to measure the fair value of the goods or services received, in consideration for the capital instruments, they are measured at fair value of the capital instruments granted.

The cost of transactions settled with capital instruments are recognized in the statements of operations together with an equivalent increase in shareholders' equity over the period in which the conditions of implementation or the service take place and end on the date that the relevant employee is entitled to compensation (hereinafter – the vesting period). The accumulated expense recognized for transactions settled with financial instruments on every reporting date, up to the vesting date, reflects the level of the vesting period that has passed, and the Company's best possible estimate regarding the number of capital instruments which will vest in the end. A debit or credit in the statements of operations reflects the change in the accumulated expense recognized at the beginning and the end of the period of report.

An expense for a granting which does not vest in the end is not recognized, excluding a granting whose vesting is dependent on market conditions handled as a granting which vested with no connection to meeting market conditions on the assumption that all the other terms of the vesting (service and/or implementation) were met.

When the Company makes changes in the terms of a granting, which is settled with capital instruments, an additional expense is recorded over and above the original expense calculated. An additional expense is recognized for every change which increases the total fair value of the share-based payment arrangement or which benefits the other employee/service provider according to fair value on the date of the change.

Cancellation of a granting settled with a capital instruments is handled as if it vested on the cancellation date, and the expenses not yet recognized for the granting are immediately recognized. Nevertheless, if the granting cancelled is replaced by a new granting earmarked as an alternative granting on the date on which it is granted, the granting cancelled and the new granting are both handled as a change in the original granting as described in the previous paragraph.

P. Liabilities for benefits to employees

The company has a number of benefits to employees plans:

1. Short-term benefits for employees
   Short-term benefits for employees include salaries, leave pay, illness pay, vacation pay and deposits with the National Insurance Institute, and are recognized as expenses on the provision of the services. A liability for a cash bonus or profit participation plan are recognized when the company has a legal or implied obligation to pay such amount for the service provided by the employee in the past, and which amount can be reliably estimated.

Note 2 - Significant Accounting Policies (cont'd)

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

2. Benefits after employment

The programs are generally financed by deposits in insurance companies and pension funds and are classified as defined deposit programs and as defined benefit programs.

The Company has defined contribution plan according to Section 14 of the Severance Pay Law, according to which the Company pays, on a permanent basis, payments without it having any legal or implied obligation to pay additional payment even if the principal does not accrue to sufficient amounts in order to pay all the benefits to the employee relating to the service of the employee during the current period and previous periods. Deposits in defined deposit programs for severance pay pursuant to Section 14 or for savings are recognized as an expense at the time of the deposit to the program, concurrent with receiving work services from the employee, and no additional provision is required in the financial statements.

Furthermore, the Company operates a defined benefit program for paying severance pay pursuant to the Severance Pay Law. According to the law, employees are entitled to receive severance pay on dismissal or on their retirement. The liability for severance pay is presented by the actuarial value method of the forecasted entitled unit. The actuarial calculation takes into account future wage increases and the rate of employees leaving, and this on the basis of an evaluation of the timing of the payment. The amounts are presented on the basis of discounting expected future cash flows, according to the interest rates of government bonds whose due date is close to the period of the liability relating to the severance pay.

The Company deposits amounts for its undertaking to pay severance pay for some of its employees, on a current basis, with pension funds and insurance companies and a central severance pay fund (hereinafter - the program's assets).

The liability for benefits to employees presented in the balance sheet represents the present value of the defined benefit plan, less the fair value of the program's assets. Assets resulting from this calculation are restricted to the cost of providing previous services plus the present value of available amounts and deducting future amounts which will be deposited in the program.

The Company chose one of the possible alternatives according to the Standard, according to which the actuarial profits or losses are recorded directly to shareholders' equity.

Note 2 - Significant Accounting Policies (cont'd)

Q. Recognition of revenues

Revenues are recognized in the statement of operations when the revenues can be reliably measured; it is expected that the economic benefits connected with the transaction will flow to the Company, and the cost accrued or which will accrue for the transaction can be reliably measured. The revenues are measured at the fair value of the consideration in the transaction, less commercial discounts, quantity discounts and returns.

The following are the specific provisions regarding recognition of the Group's revenues which must exist so as to recognize the revenue:

1. Revenues from sale of products are recognized when all the significant risks and benefits are passed to the buyer; in general, on the date of delivery of the product to the buyer (the distributor).
2. Revenues from services are recorded by the accrual method over the period of the service agreement.
3. Revenues from management fees of a building are recorded by the accrual method over the period of the agreement.
4. Revenues from work in a construction contract are recognized according to the rate of completion method, where all the following conditions exist: the revenues are known or can be reliably measured, the collection of revenues is expected, the cost connected with performing the work is known or can be reliably measured, there is no significant uncertainty regarding the ability of the Company to complete the work and meet the contractual terms with the customer, and the rate of completion can be reliably measured. The rate of completion is determined on the basis of completion of the engineering stages of the work. Regarding work for which a loss is expected, a full provision for the expected loss is made.

R. Discounts to customers

Current discounts to customers are included in the financial statements on their granting and are recorded to the revenues.

S. Earnings (loss) per share

Earnings (loss) per share are calculated according to the number of ordinary shares. Basic earnings per share includes only shares that actually exist during the period and potential ordinary shares (for example convertible bond and warrants) are included only when calculating diluted earnings per share, should their effect dilute the earnings per share when their conversion reduces earnings per share or increases the loss per share from continuing operations. In addition, convertible securities converted during the period are included in the diluted earnings per share, only after the date of conversion, and from that date the shares issued as a result of the conversion are included in basic earnings per share. The company's share in the subsidiaries' profits is calculated according to the company's share in the subsidiaries' earning per share multiplied by the number of shares held by the company.

T. Provisions

A provision is recognized when the Company has a legal obligation in the present or an implied obligation as a result of an event which occurred in the past, and it is expected that it will be required to use economic resources to settle the obligation and it is possible to reliably estimate it. Should the effect be significant, the provisions are measured by discounting future expected cash flows, and using the rate of interest before tax reflecting the market evaluation regarding the time value of money, and in certain cases even the specific risks connected with the liability.

Note 2 - Significant Accounting Policies (cont'd)

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

1. IAS 23 (amended) - Financing costs

According to the amended IAS 23, it is obligatory to capitalize financing costs which relate directly to the purchase, the establishment or production of an eligible asset. An eligible asset is an asset in which a significant period of time is required to prepare it for the use it is intended, or its sale, and includes fixed assets, real estate for investment, and inventory which requires a significant period of time in order to bring it to a suitable condition for sale. The possibility to immediately record these costs as an expense has been cancelled.
The amended Standard will apply to financial statements for the year starting January 1, 2009. Earlier implementation is possible.

In the Company's opinion, the amendment to the Standard is not expected to have a significant effect on its financial condition, results of operations and cash flows.

2. IFRS 8 - Operative segments

IFRS 8 (hereinafter: "the Standard") deals with operative segments and replaces IAS 14. The Standard will apply to companies whose securities are listed, or in the process of being listed, for trading on any stock exchange. The Standard will apply regarding the annual financial statements for periods starting after January 1, 2009. The Standard may be adopted earlier. The provisions of the Standard will be applied retrospectively by way of restatement, unless the information required according to its directives is not available and it is not practical to locate it.
The Standard stipulates that an entity will adopt the "Management approach" in reporting on the financial performance of operative segments. The segment information will be the information that management uses internally, for the purpose of evaluating performance of segments, and for the purpose of deciding the way of allocating sources to the operative segments.

Moreover, information will be provided regarding revenues resulting from the entity's products or services (or similar groups of products and services), the countries from which the revenues are obtained or the assets and main customers, and this without considering whether management uses this information for its operative decisions.

In the Company's opinion, the effect of the new standard, on the presentation of the note regarding segments today, is not expected to be significant.

3. IAS 1 (amended) - Presentation of financial statements

According to the amendment to IAS 1, a separate statement must be presented "Statement of total income" in which apart from the amount of net income from the statement of operations, all the items which were posted during the period of report directly to shareholders' equity, and which do not result from transactions with shareholders, as shareholders, will be presented, such as the provision of translation between the financial statements of foreign operations, adjustments to fair value of financial assets classified as available for sale, adjustments to the revaluation reserve of fixed assets, etc. and the tax effect of these items, which is also posted directly to shareholders' equity. Other items only, which were posted to shareholders' equity, resulting from transactions with shareholders as shareholders (such as the issue of capital, the distribution of a dividend, etc.) will be presented in the statement of changes in shareholders' equity, as well as the total row from the statement of total income, with suitable allocation between the Company and minority rights.
Furthermore, the Standard stipulates that in cases of a change in the comparative figures, as a result of a change in the accounting policy applied retrospectively, a restatement or a reclassification, a balance sheet must also be presented for the beginning of the period of the comparative figures for which the change was made.
Standard IAS 1 will apply to the annual financial statements for periods starting January 1, 2009; earlier adoption is possible.

The amendment of IAS 1 will require the Company to give such disclosure in their financial statements.

Note 2 - Significant Accounting Policies (cont'd)

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

4. IAS 32 (amended) - Financial instruments: Presentation, and IAS 1 (amended) - Presentation of financial statements (hereinafter: "the Standards")
According to the Standards, certain financial instruments which can be exercised (puttable) and liabilities created due to liquidation must be classified as capital, , and this should a number of criteria be met. Moreover, suitable disclosure is required regarding instruments which can be exercised, which are classified as capital. The new Standards will apply to annual financial statements for periods starting January 1, 2009; earlier implementation is possible.

In the Company's opinion, the amendment to the Standard is not expected to have a significant effect on the financial condition, results of operations and cash flows.

5. IFRS 1 (amended) - First adoption of the IFRS and IAS 27 (amended) - separate and consolidated financial statements
According to the amendment to the Standards, an exemption was added to the retrospective implementation of IFRS standards on the opening balance sheet, according to IFRS 1 on the transition date to first reporting in accordance with IFRS Standards in the separate financial statements (the "Solo" financial statements). According to the exemption, in these financial statements, the cost of the investment in subsidiaries, in companies with joint control and in affiliated companies, can be determined, apart from the historical cost basis or fair value basis, also at considered cost based on the book value of the investment as presented in accordance with previous generally accepted accounting principles, i.e. by the equity method. This choice can be done for every investment separately. Furthermore, a dividend from investments in companies mentioned above will be recognized in the separate financial statements as revenues without distinguishing whether distributed from accumulated profits before the date of the acquisition of the investment or thereafter. The Standard will be adopted in the separate financial statements as mentioned above on the transition date of January 1, 2008 and thereafter. Earlier adoption is possible.

In the Company's opinion, the amendment to the Standard is not expected to have a significant effect on the consolidated and separate financial statements.

6. IFRS 3 (amended) - Business combinations; and IAS 27 (amended) - separate and consolidated financial statements
Amended IFRS 3 and amended IAS 27 (hereinafter: "the Standards") will be applied for annual financial statements for periods starting January 1, 2010. Early application of the two Standards is possible jointly, starting from annual financial statements for periods starting January 1, 2008. The following are the main changes expected to apply as a result of implementing the Standards:

- Today, IFRS 3 states that goodwill, contrary to the other identified assets and liabilities of the purchased company, will be measured as the surplus cost of acquisition of the purchasing company's share in the fair value of identified net assets on the purchase date. According to the Standards, it is possible to choose for every business combination transaction separately to measure goodwill on the basis of its full fair value, and not only the part purchased.
- Proceeds contingent on business combinations will be measured at fair value, where the changes in fair value of the contingent proceeds, which are not adjustments during the period of measurement to the cost of the acquisition, will not be recognized concurrently as an adjustment of goodwill. Generally, contingent proceeds will be considered a financial derivative on which IAS 39 will apply, which is presented as fair value with changes to it posted to the statement of operations.

Note 2 - Significant Accounting Policies (cont'd)

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

6. IFRS 3 (amended) - Business combinations; and IAS 27 (amended) - separate and consolidated financial statements (cont'd)

- Costs of direct purchasing relating to a business combination transaction will be recognized to the statement of operations on their accrual, whereas the requirement up to now was to record them as part of the consideration in the cost of the business combination, was cancelled.
- A transaction with the minority, whether a sale or purchase, will be handled as a capital transaction and therefore will not result in recognition in the statement of operations or affect the amount of goodwill, respectively.
- Losses of a subsidiary, even if they result in a deficit in the subsidiary's shareholders' equity, will be divided between the parent company and the minority rights, even if the minority is not a guarantor or has no contractual obligations to support the subsidiary, or to make an additional investment in it.
- On the date of loss of control in the subsidiary, the balance of holdings, if existing, will be revalued to fair value against profit or loss from the realization and this fair value will be the basis for its cost for further treatment.

In the Company's opinion, the amendment to the Standards is not expected to have a significant effect on the financial condition, results of operations and cash flows.

7. IFRS 2 (amended) - share-based payment

According to the amended IFRS 2 (hereinafter: "the Amended Standard") the definition of vesting conditions will include only service conditions and performance conditions. According to the amended Standard, the settling of granting which includes conditions which are not vesting conditions, whether by the Company or by the other party, will be handled by accelerating vesting and not by forfeiture.
The amended Standard will apply retrospectively regarding financial statements for periods starting January 1, 2009. Earlier implementation is possible.

In the Company's opinion, the amendment to the Standard is not expected to have a significant effect on its financial condition, results of operations and cash flows.

8. IFRS 5 (amended) - Non current assets held for sale and discontinued operations

According to the amendment to IFRS 5, when the parent company decides to realize part of its holdings in a subsidiary in such a way that after the realization the parent company will remain with a holding which does not give it control, such as rights which provide a significant influence, all the assets and liabilities relating to the subsidiary will be classified as held for sale and the relevant provisions of IFRS 5 will be applied, including presenting them as discontinued operations. The amendment to the Standard will be applied 'from here on' from the financial statements for periods starting January 1, 2010. Earlier adoption is possible.

In the Company's opinion, the amendment to the Standard is not expected to have a significant effect on its financial condition, results of operations and cash flows.

Note 2 - Significant Accounting Policies (cont'd)

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

9. IAS 20 (amended) - Government grants

According to the amendment to IAS 20, a loan that the Company received from the State without interest or with a lower interest than market interest will be handled on the first date of recognition and for following periods according to the provisions of IAS 39 - "Financial Instruments - Recognition and Measurement". Therefore, the loan will first be recognized at fair value while discounting it according to market interest. The difference between the amount of the loan received and its fair value will be handled from now on as a government grant according to the provisions of the Standard. The Standard will be applied 'from-here-on' from financial statements for periods starting January 1, 2009 regarding government loans received after that date. Earlier adoption is possible.

In the Company's opinion, the amendment to the Standard is not expected to have a significant effect on its financial condition, results of operations and cash flows.

10. IAS 19 (Amended) - Benefits to employees

According to the amendment to IAS 19, the group of other long-term benefits will include also benefits to employees where their entitlement to them comes into existence in the short-term, but the date of the expected utilization occurs after a year from the end of the period entitling them to the benefit, such as benefits for accumulated leave pay and sick pay which are expected to be utilized during a period after a year after the balance sheet date. Therefore, these benefits will be debited from now on as recognized in the financial statements, according to an actuarial calculation considering future salaries and discounting it to the present value. The Standard will be applied retrospectively as from the financial statements for periods starting January 1, 2009. Earlier adoption is possible.

In the Company's opinion, the amendment to the Standard is not expected to have a significant effect on its financial condition, results of operations and cash flows.

11. IAS 28 (Amended) - Investments in affiliated companies

According to the amendment to IAS 28, examining impairment in value of an investment in an affiliated company will be done considering the total investment. Accordingly, a loss recognized from an impairment in value of an investment will not be allotted specifically to goodwill included in the investment, but will be related to the total investment and, therefore, the full loss from the impairment in value recognized in the past may be cancelled on the existence of the required conditions. The amendment to the Standard can be implemented retrospectively or 'from-here-on' as from the financial statements for periods starting January 1, 2009. Earlier adoption is possible.

In the Company's opinion, the amendment to the Standard is not expected to have a significant effect on its financial condition, results of operations and cash flows.

12. IAS 38 (Amended) - Intangible assets

According to the amendment to IAS 38, expenses spent for advertising, marketing or sales promotions will be recognized as an expense on the date on which the Company has access to the advertising products or when the service for these operations is provided to the Company.
For this purpose, such activities also include the production of catalogs and advertising pamphlets. Furthermore, the assumption, which is rare, if at all, that amortization on an intangible asset with a defined lifespan by the unit of production method will be lower than the straight-line method was cancelled and, therefore, will enable amortization according to product units without the above restriction. The Standard will be implemented retrospectively as from financial statements for periods starting January 1, 2009. Earlier adoption is possible.

In the Company's opinion, the amendment to the Standard is not expected to have a significant effect on its financial condition, results of operations and cash flows.

Note 2 - Significant Accounting Policies (cont'd)

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

13. IAS 39 (Amended) - Financial instruments: Recognition and Measurement

According to the amendment to IAS 39, it is possible to earmark as a defined item, changes in cash flows or changes in fair value of a one-sided risk, i.e. a risk defined as a risk exposed to fluctuations of over or under a certain price or a defined variable. The amendment also clarifies that it is possible earmark an inflationary component as a separate risk on condition that it is contractually specified in cash flows of bonds linked to the index, so that it is possible to identify it separately and reliably measured should the other cash flows of the instrument not be affected by the index component. The amendment must be adopted retrospectively for annual periods starting July 1, 2009 or thereafter. Earlier adoption is possible.

14. IFRIC 13 - Purchase benefits and customer incentives

IFRIC 13 (hereinafter: "the clarification") applies to annual financial statements for periods starting July 1, 2008 or thereafter, while adopting the comparative figures for previous periods, retrospectively. Earlier application is possible. The clarification applies to purchase benefits and customer incentives (such as club points, credit points, and purchase vouchers) which the Company grants as part of a sales transaction in order to encourage the customer to make future purchases. Subject to the existence of the entitling conditions, the customer can realize in the future the benefits and receive gratis or at a discount - a product or service.

In the Company's opinion, the adoption of the new clarification is not expected to affect its financial condition, results of operations and cash flows.

15. IFRIC 16 - Hedging a net investment in foreign operations

IFRIC 16 (hereinafter: "the Clarification") stipulates that it is not possible to hedge a risk for a change in the exchange rate relating to the Company's presentation currency, but only relating to its functional currency. Furthermore, it is possible to hedge a risk for a change in the exchange rate relating to the functional currency of every subsidiary in the Group, even if this is controlled indirectly by another company in the Group. Furthermore, it stipulates that a hedging instrument can be held by every company in the Group. The clarification applies to annual financial statements for periods of report starting after January 1, 2009 or thereafter. Early adoption is possible.

In the Company's opinion, the amended Standard is not expected to have a significant effect on its financial condition, results of operations and cash flows.

Note 3 - Cash and cash equivalents

	December 31, 2008	December 31, 2008	December 31, 2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Israeli currency	1,035	5,483	3,850
Foreign currency	1,713	9,076	12,235
	2,748	14,559	16,085

Note 4 - Marketable securities

Marketable securities measured at fair value through the statement of operations

	December 31, 2008	December 31, 2008	December 31, 2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Israeli Bonds:			
Linked to Israeli CPI	2,374	12,576	26,025
Linked to USD	489	2,593	7,503
Unlinked	2,366	12,531	5,089
	5,229	27,700	38,617

Note 5 - Accounts receivable - trade

Related to work in progress in connection with long-term contracts (*):			
Open accounts	407	2,158	5,353
Income receivable	125	661	2,447
	532	2,819	7,800
Others:			
Open accounts	1,573	8,334	6,191
Post-dated checks receivable	36	188	36
	1,609	8,522	6,227
	2,141	11,341	14,027
Provision for doubtful debts	(9)	(46)	(32)
	2,132	11,295	13,995
(* Costs and recognized profits	2,944	15,597	41,528
Less bills of progress in work	2,468	13,075	34,446
	476	2,522	7,082
V.A.T on open accounts	56	297	718
	532	2,819	7,800

Costumers without provision for doubtful debts:

		Customers with collection delay of			
	Customers without collection delay	Up to 30 days	30 to 90 days	More then 90 days	Total
		NIS (in thousands)			
December 31, 2008	5,875	3,758	809	4	10,446
December 31, 2007	7,318	3,358	315	521	11,512

Note 6 - Inventory

Raw and packaging	1,156	6,128	5,538
Work in process	632	3,350	3,791
Finished products	727	3,848	3,651
	2,515	13,326	12,980

Note 7 - Inventory - work in progress

	December 31, 2008	December 31, 2008	December 31, 2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Cost of work performed	3,393	17,973	42,375
Less amounts charged to statements of operations	3,393	17,973	42,056
	-	-	319

Note 8 - Property and equipment, net

	Land and Buildings (*)	Machinery and Equipment	Motor vehicles	Office furniture and Equipment	Total
	NIS (in thousands)				
Cost					
Balance as at January 1, 2007	17,411	5,368	805	1,609	25,193
Additions	290	1,489	-	218	1,997
Disposals	-	(1,432)	-	(92)	(1,524)
Translation differences	-	-	-	(5)	(5)
Balance as at December 31, 2007	17,701	5,425	805	1,730	25,661
Additions	122	567	-	502	1,191
Disposals	-	(335)	-	-	(335)
Translation differences	-	-	-	(2)	(2)
Balance as at December 31, 2008	17,823	5,657	805	2,230	26,515
Accumulated depreciation					
Balance as at January 1, 2007	2,154	3,484	276	737	6,651
Depreciation during the year	603	921	121	163	1,808
Disposals	-	(1,432)	-	(92)	(1,524)
Translation differences	-	-	-	2	2
Balance as at December 31, 2007	2,757	2,973	397	810	6,937
Depreciation during the year	611	787	121	185	1,704
Disposals	-	(335)	-	-	(335)
Translation differences	-	-	-	1	1
Balance as at December 31, 2008	3,368	3,425	518	996	8,307
Net book value as at December 31, 2008	14,455	2,232	287	1,234	18,208
Net book value as at December 31, 2007	14,944	2,452	408	920	18,724

(*) Includes specific capitalized financing costs (NIS 1,015 thousand, EURO, as at December 31, 2007 and 2008). The building is located in Kiriat Sde Hateufa, on land leased from the government (Minhal). The land is leased for a period of 49 years and has been capitalized (91%).

Note 8 - Property and equipment, net (cont'd)

	Convenience translation into euro, (unaudited)				
	Land and Buildings	Machinery and Equipment	Motor vehicles	Office furniture and Equipment	Total
	(in thousands)				
Cost					
Balance as at January 1, 2008	3,342	1,024	152	327	4,845
Additions	23	107	-	93	223
Disposals	-	(63)	-	-	(63)
Translation differences	-	-	-	(*) -	(*) -
Balance as at December 31, 2008	3,365	1,068	152	420	5,005
Accumulated depreciation					
Balance as at January 1, 2008	520	561	75	153	1,309
Depreciation during the year	115	149	23	35	322
Disposals	-	(63)	-	-	(63)
Translation differences	-	-	-	(*) -	(*) -
Balance as at December 31, 2008	635	647	98	188	1,568
Net book value as at December 31, 2008	2,730	421	54	232	3,437

(*) Less then 1,000 Euro.

Note 9 - Intangible assets, net

	Patents and Licenses	Software	Development costs	Total
	NIS (in thousands)			
Cost				
Balance as at January 1, 2007	519	629	-	1,148
Additions - internal created	-	-	7,625	7,625
Additions - bought	64	333	-	397
Disposals	(97)	-	-	(97)
Balance as at December 31, 2007	486	962	7,625	9,073
Additions - internal created	-	-	7,433	7,433
Additions - bought	153	103	-	256
Balance as at December 31, 2008	639	1,065	15,058	16,762
Accumulated amortization				
Balance as at January 1, 2007	326	72	-	398
amortization during the year	112	245	-	357
Disposals	(97)	-	-	(97)
Balance as at December 31, 2007	341	317	-	658
amortization during the year	121	330	1,872	2,323
Balance as at December 31, 2008	462	647	1,872	2,981
Net book value as at December 31, 2008	177	418	13,186	13,781
Net book value as at December 31, 2007	145	645	7,625	8,415

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

	Convenience translation into Euro, (unaudited)			
	Patents and Licenses	Software	Development costs	Total
	(in thousands)			
Cost				
Balance as at January 1, 2008	92	182	1,439	1,713
Additions - internal created	-	-	1,403	1,403
Additions - bought	29	19	-	48
Balance as at December 31, 2008	121	201	2,842	3,164
Accumulated amortization				
Balance as at January 1, 2008	64	60	-	124
Amortization during the year	23	62	353	438
Balance as at December 31, 2008	87	122	353	562
Net book value as at December 31, 2008	34	79	2,489	2,602

amortization expenses

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

	For the year ended December 31,	For the year ended December 31,	
	2008	2008	2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Cost of revenues	389	2,062	140
Development expenses, net	12	65	48
Selling & marketing expenses	10	50	37
General & administrative expenses	27	146	132
	438	2,323	357

Note 10 - Current maturities of non current liabilities

	December 31, 2008	December 31, 2008	December 31, 2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Current maturities of loans:			
Linked to the USD	78	415	420
Linked to the EURO	92	489	522
Linked to the CPI	20	107	128
	190	1,011	1,070
Current maturities of bonds:			
Linked to the USD	1,652	8,750	8,750
Linked to the EURO	-	-	1,955
Linked to the CPI	1,356	7,180	-
	3,008	15,930	10,705
	3,198	16,941	11,775

Note 11 - Accounts payable - trade

Suppliers	1,320	6,997	11,261
Post-dated checks payable	482	2,548	1,369
	1,802	9,545	12,630

Note 12 - Accounts payable - other

Employees, payroll and taxes	462	2,445	2,654
Government institutions	72	383	373
Provision for vacation	67	353	429
Accrued expenses	1,065	5,641	4,111
Prepaid income	16	87	465
Advance from costumers	777	4,120	198
	2,459	13,029	8,230

Note 13 - Loans from banks and others

A. Consisting of the following:

	Annual Interest Rates %	December 31, 2008	December 31, 2008	December 31, 2007
			(in thousands)	
		Convenience translation into EURO, (unaudited)	NIS	
Long-term loans from banks:				
Linked to the USD	Libor+2.02	705	3,733	5,222
Linked to the EURO	Libor+2.02	830	4,399	4,196
Less current maturities		171	(904)	(942)
		1,364	7,228	8,476
Long-term loans from others:				
Motor vehicles lassoers - linked to the Israeli CPI	5.73 - 8.5	20	107	230
Less current maturities		(20)	(107)	(128)
		-	-	102
		1,364	7,228	8,578

B. Aggregate maturities are as follows:

Second year	171	904	1,045
Third year	171	904	942
Fourth year	171	904	942
Fifth year	171	904	942
Sixth year and thereafter	680	3,612	4,707
	1,364	7,228	8,578

C. Mortgages - see note 16.

Note 14 - Bonds

A. Convertible Bonds

1. Consisting of the following:

	December 31, 2008	December 31, 2008	December 31, 2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Bonds linked to USD (see 2 below)	3,304	17,500	26,250
Bonds in EURO (see 3 below)	-	-	1,955
	3,304	17,500	28,205
Less discount, net	(162)	(854)	(1,891)
	3,142	16,646	26,314
Less current maturities	(1,652)	(8,750)	(10,705)
	1,490	7,896	15,609

2. During May 2004 the company issued a series of convertible bonds (series 1) totaling par value NIS 35 million of NIS 0.02 par value each one (in exchange for 95% of their par value) which are repayable in 4 yearly equivalent installments beginning May 23, 2007. The bonds are linked to the prevailing rate of exchange of the dollar and bear interest of Libor for six months plus 2.5% per annum. The effective interest - Libor plus 3.55%.

   The bonds may be converted to ordinary shares from the date of registration for trade on the Stock Exchange until May 9, 2010. Each NIS 9 par value of bond may be converted into 1 ordinary share of the company.

3. Convertible Euro bonds, at a subscription price of 4.73 Euro per bond.
   The bonds bear interest of 8.13% per annum. Commencing May 2006, the bonds will be repaid in 10 quarterly installments.
   In 2008 the company completed to repay the convertible Euro bonds.

4. Concerning bonds (series 1) purchase by the company after the balance sheet date - see note 29.

Note 14 - Bonds (cont'd)

A. Convertible Bonds (cont'd)

5. Aggregate maturities are as follows:

	December 31, 2008	December 31, 2008	December 31, 2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Current maturities	1,652	8,750	10,705
Second year	1,652	8,750	8,750
Third year	-	-	8,750
	3,304	17,500	28,205

B. Bonds

1. On August, 2006 the company issued a series of bonds (series 2) at the amount of NIS 34 million (in exchange for 94% of their par value) payable in 5 equal payments starting at August 25, 2009.The bonds are linked to the Israeli CPI and bear fixed interest of 6.1% per annum. The effective interest - 9.57%.

2. Concerning bonds (series 2) purchase by the company after the balance sheet date - see note 29.

3. Consisting of the following:

Bonds linked to the Israeli CPI	6,780	35,900	34,349
Less discount, net	(507)	(2,674)	(3,408)
	6,273	33,226	30,941
Less current maturities	(1,356)	(7,180)	-
	4,917	26,046	30,941

4. Aggregate maturities are as follows:

Current maturities	1,356	7,180	-
Second year	1,356	7,180	6,870
Third year	1,356	7,180	6,870
Fourth year	1,356	7,180	6,870
Fifth year	1,356	7,180	6,870
Sixth year and thereafter	-	-	6,869
	6,780	35,900	34,349

Note 15 - Liabilities for benefits to employees

A. Benefits after termination of employment

The Labor Laws and the Severance Pay Law in Israel require the Company to pay severance pay to an employee at the time of his dismissal or retirement, under certain circumstances, or to make current deposits in defined deposit plans under Section 14 of the Severance Pay Law, as described below. As a result the Company's liabilities are handled as a benefit after termination of employment. The calculation of the Company's liability for benefits to employees, after termination of employment, is made according to the employment agreement in effect, based on the employee's salary and period of employment, which create the right to receive severance pay.
The part of the severance pay payment is handled by the Company as a defined benefit plans according to which the liability for benefits to employees is recorded.

The benefits to employees after termination of employment are generally financed by deposits classified as a defined benefit program or as a defined deposit program as detailed below.

B. Defined contribution plans

Regarding part of the payment of severance pay, the provisions of Section 14 of the Severance Pay Law – 1963 apply, according to which current deposits of the Company in pension funds and/or policies with insurance companies, exempts it from any additional liability to employees for which the above-mentioned amounts were deposited. These deposits and the deposits for savings are defined contribution plans.

	For the year ended December 31,	For the year ended December 31,	
	2008	2008	2007
	Convenience translation into EURO, (unaudited)	(in thousands) NIS	
Expenses for defined contribution plans	176	935	919

C. Defined benefits plans

The part of the severance pay payments not covered by deposits in defined contribution plans, as mentioned above, are handled by the Company as defined benefit plans according to which the liability for benefits to employees is recognized, and for it the Company deposits amounts in central severance pay funds, in pension funds and in suitable insurance policies.

1. Expenses recognized in statements of operations:

Current service cost	125	664	1,006
Interest on obligation	61	321	300
Expected return on plan assets	(60)	(319)	(325)
	126	666	981
Actual return on plan assets	(103)	(547)	711

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

C. Defined benefits plans (cont'd)

2. Amounts in the balance sheet:

	December 31,	December 31,	
	2008	2008	2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Liabilities	1,205	6,384	6,102
Assets	(1,053)	(5,581)	(5,941)
Net liability	152	803	161

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

	2008	2008	2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Opening defined benefit obligation	1,151	6,102	5,653
Interest cost	61	321	300
Service cost	125	664	1,006
Liabilities extinguished on settlements	(138)	(731)	(902)
Actuarial losses, net	5	28	45
Closing defined benefit obligation	1,204	6,384	6,102

4. The plan assets

a. The plan assets include assets held by the pension funds, the suitable insurance policies and a central severance pay fund.

b. Changes in the fair value of plan assets:

Opening fair value of plan assets	1,122	5,941	5,160
Expected return	60	319	325
Contributions by employer	64	338	577
Assets distributed on settlements	(29)	(151)	(507)
Actuarial gain (losses), net	(163)	(866)	386
Closing fair value of plan assets	1,054	5,581	5,941

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

5. Principal actuarial assumptions for defined benefit plans:

	For the year ended December 31,	
	2008	2007
	Rate (%)	
Discount rate	4.20	3.62
Expected return on plan assets (*)	1.80-3.90	2.00-4.09
Future salary increases	3.00	3.00

(*) according to the assets type

Note 16 - Contingent Liabilities, Mortgages and guarantees

A. Contingent liabilities

The Company is committed to pay royalties to the Government of Israel on proceeds from sales of products funded in part, by Government grants. At the time the grants were received, successful development of the related projects was not assured. The royalty rates vary from 2% to 5% of gross sales of a product or development resulting from the research. Royalties are payable up to 100% of the amount of such grants. The contingent liability in respect of royalties to the Government at December 31, 2008 amounts to NIS 203 thousands (EURO 39 thousands) relating to projects that the company's management assumes royalties payments.

B. Mortgages and guarantees

In order to secure the company's liability in respect of financial leasing, the rights to the leased cars were lined to the leasing companies. Furthermore, in order to secure the company's liabilities to the bank, the company mortgaged with a first fixed and floating charge the building, notes, documents and securities deposited or which will be deposited in the bank. Similarly a first charge was placed on guarantees given to the company. As at December 31, 2008, the company gave performance guarantees to customers in the total amount of NIS 60 thousands (EURO 11 thousands).

Note 17 - Share Capital

A. Composition

	Number of shares December 31, 2008 and 2007	
	Authorized	Issued and fully paid
Ordinary shares of NIS 0.02 par value each	100,000,000	11,676,546

Note 17 - Share Capital (cont'd)

B. Option plan

The Company maintains three share option plans (1999, 2001 and 2003 Share Option Plans), pursuant to which share options in the Company may be granted to employees, officers, directors and consultants of the Company or its subsidiaries. Pursuant to the 1999, 2001 and 2003 Option Plans, 440,000, 950,000 and 1,000,000 ordinary shares were reserved, respectively, for issuance under these plans.

Under the option plans, the exercise price of options shall be determined by the board of directors, according to the option plans terms. The vesting schedule of the options is also determined by the board of directors. The options vest either immediately, or over a period of between one to four years and are typically exercisable for a period of four to five years. The 1999, 2001 and 2003 Option Plans expire in the years 2009, 2011 and 2013 respectively.

As at the date of publishing the financial statements, all options under 1999 and 2001 plans were expired.

712,000 options have been granted under the 2003 option plan. 597,000 options under the 2003 option plan were expired as at December 31, 2007 accordingly to the options term, without exercise. From the expired options under 2003 option plan, 10,000 options have been granted to an outside director. These options exercisable at a price of EURO 1 till May 2009, without maturity period. 115,000 options under the 2003 option plan exercisable at price of Euro 1.3.

C. In august 2006 the company issued a series of 600 thousands warrants, which can be exercised to ordinary shares of 0.02 NIS in a way that any warrant can be exercised to one ordinary share at respective price of NIS 5.00, the amount is linked to the Israeli CPI. The warrants can be exercised since the day it was listed to trade until August 24, 2010.

D. Since August 2005 the company purchases, from time to time, shares of the company in the Tel Aviv stock exchange. As at December 31, 2008 the company holds 664,880 shares - 5.7% of the company's issued share capital, which was purchased in a sum of NIS 2,931 thousands (Euro 560 thousands).

E. In the year 2008 1.3 millions USD option expired, without exercise.

F. In April, 2007 the company granted 210,000 options to a consultant. The vesting dates of 105,000 options ("the first options") are September 1, 2007, 2008 and 2009 in equal settlements. The vesting dates of additional 105,000 options ("the additional options") are September 1, 2008, 2009 and 2010 in equal settlements. The first options can be exercised till August 31, 2010 and the additional options can be exercised till August 31, 2011. The options are exercisable at a price of Euro 1.30. The economic value of the options at the grant day according to B&S model is NIS 5 thousands.

Note 18 - Cost of revenues

	For the year ended December 31,	For the year ended December 31,	
	2008	2008	2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Materials consumed and subcontractors	6,606	34,993	51,519
Payroll and related benefits	1,883	9,973	12,315
Changes in work in process and finished products	42	224	(1,000)
Depreciation and amortization	205	1,088	1,083
Management and maintenance costs	135	716	809
Other expenses	1,276	6,762	6,139
	10,147	53,756	70,865

Note 19 - Development expenses, net

Payroll and related benefits	1,198	6,349	6,480
Subcontractors	98	518	447
Other expenses	412	2,183	2,345
Less - capitalized expenses	(1,402)	(7,433)	(7,625)
	306	1,617	1,647

Note 20 - Selling and marketing expenses

Salaries and related benefits	1,029	5,452	6,070
Travel and marketing abroad	123	653	445
Exhibits, advertising and other expenses	1,198	6,344	7,052
	2,350	12,449	13,567

Note 21 - General and administrative expenses

Salaries and related benefits	529	2,800	2,407
Office rent, maintenance and communications	63	333	422
Depreciation and amortization	57	300	557
Professional services	229	1,216	2,370
Bad and doubtful debts	2	13	25
Others	83	439	795
	963	5,101	6,576

Note 22 - Financing income (expenses)

	For the year ended December 31,	For the year ended December 31,	
	2008	2008	2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
A. Financing income			
Profit and interest from marketable securities, net	-	-	1,270
Gain on cash and cash equivalents and bank deposits	-	-	75
Reevaluation of embedded derivatives	-	-	103
Reevaluation of warrants	37	193	1,618
Others	17	93	1,629
	54	286	4,695
B. Financing expenses			
Financing cost relating to bonds	1,281	6,789	6,392
Loss and interest from marketable securities, net	234	1,239	-
Loss on cash and cash equivalents and bank deposits	195	1,032	-
Financing cost relating to long term debt	25	132	372
Reevaluation of embedded derivatives	40	215	-
Others	117	622	1,886
	1,893	10,029	8,650

Note 23 - Interested and related parties

1. Transactions with interested and related parties:

	For the year ended December 31,	For the year ended December 31,	
	2008	2008	2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Salaries and related benefits (*)	280	1,485	1,673
Directors' remuneration (**)	22	118	81
Rental expenses	66	348	413
(*) Number of recipients	2	2	2
(**) Number of recipients	4	4	3

Note 23 - Transactions with interested and related parties (cont'd)

2. The company insured the liability of the directors and executives in accordance with the provision of the law. The policy covers the liability of the directors and executives of the company up to USD 5 million.

3 The annual general meeting of the Company's shareholders (the "**AGM**") has approved the indemnification and exemption of the Company's Office Holders as may be appointed from time to time, and/or those serving in Other Companies (excluding Office Holders which are Controlling Shareholders of the Company) pursuant to the provisions of the Indemnity Letter and the granting of Indemnity Letters to such Office Holders.
In addition, the AGM has approved the indemnification and exemption of Mr. Haim Shani and Mrs. Bareket Shani, the Controlling Shareholder in the Company and his wife.

4. In April 2005 the general meeting of the company's shareholders approved to grant Mr. Haim Shani - the Company's Chief Executive Officer and chairman of the board of directors (hereinafter: "Mr. Shani"), an annual bonus in respect of each calendar year beginning on 2005 and as long as he serves as the Company's CEO (the "Future Bonus"), at a rate of 7.5% of the Company's profit before taxes.

5. The company granted options to an external director. See also Note 17B.

6. The company leases approx 632 square meters in Unitronics building from an interested party.

Note 24 - Taxes on Income

A. Income Tax Law (Adjustments for Inflation) – 1985

According to the law, up to the end of 2007, the results for tax purposes were measured after being adjusted to changes in the consumer price index.

In February 2008, the Knesset passed the amendment to the Income Tax Law (Adjustments for Inflation) – 1985, which restricts the Adjustments Law from 2008 and thereafter. As from 2008, the results for tax purposes are measured in nominal amounts, excluding certain adjustments for changes in the consumer price index during the period of up to December 31, 2007. The amendment to the law includes, inter alia, the cancellation of the addition and the deduction for inflation and additional deduction for depreciation as from 2008.

B. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969.

The Company currently qualifies as an "Industrial Company" under the above law. As such, it is entitled to certain tax benefits, mainly the right to deduct share issuance costs for tax purposes in the event of a listing in a stock exchange, and to amortize know-how acquired from third parties.

C. On November 1999 the Company filed an application for Approved Enterprise status, with respect to investments in developing Internet based Programmable Logic Controllers. The Company has applied to participate in the Alternative Benefit Program under which a full tax exemption is available on its taxable profits attributable to the specific program approved during the first 2 years of the Benefit Period, as well as a Company Tax rate of 25% during the 5 years thereafter. The application was approved on June 2000. Tax benefits resulting from the additional approved enterprise status will be calculated in respect of the increase in sales compared to the base year (as defined by the Law for the Encouragement of Capital Investments). Income derived by the Company from sources other than the program granted the status of Approved Enterprise, as well as income derived after the end of the benefits period, is subject to regular Company Tax. Dividends paid out of income that derived from an "approved enterprise" are subject to a reduced income tax rate of 15%.

Note 24- Taxes on Income (cont'd)

C. (cont'd)

The period of tax benefits, detailed above, is subject to a time limit of the earlier of 12 years from the commencement of production, or 14 years from receiving the approval.
In the event of a distribution of cash dividends from income which is tax exempt due to the above, the Company would have to pay Company tax at the rate of 25% on the amount distributed.

On October 2000 the company filed an addition to the above approved enterprise program. The addition was approved on January 2003. Tax benefits resulting from the additional approved enterprise status are similar to the original approved enterprise program.

On April 22, 2003 the Company has submitted a final report regarding the execution of the approved enterprise program and its additions. The approved enterprise program and its addition were approved on February 2004. The base year for the tax benefits period under the first program is 1999, and under the second program is 2004. No tax benefits have been used under both programs.

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

	For the year ended December 31,	For the year ended December 31,	
	2008	2008	2007
	Convenience translation into EURO, (unaudited)	(in thousands) NIS	
Profit (loss) before taxes on income	(555)	(2,946)	5,658
Tax rate (%)	27	27	29
Theoretical tax	(150)	(795)	1,641
Increase in taxes resulting from non-deductible expenses	11	59	131
Temporary differences where deferred taxes were not recognized	139	736	(1,952)
Additional tax in respect of other differences	-	-	180
	-	-	-

E. On July 25, 2005 an adjustment to the income tax ordinance (No. 147) 2005, was approved by the government. This adjustment reduces the tax rates as follows: 2008 - 27%, 2009 - 26% 2010 and forward - 25%.

F. Final tax assessments
The Company has final tax assessments for all years up to December 31, 2004.

G. Tax loss carry forward
As at December 31, 2008 the company's tax loss carry forward where deferred taxes were not recognized, amounts to approximately NIS 25 million (EURO 4,780 thousands) and the consolidated loss amount to approximately NIS 31 million (EURO 5,930 thousands).

Note 25 - Business and geographical segments

1. General

A. 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").

B. Part of the revenues and expenses are allocated directly to the business segments. Expenses, which relate to both segments, are allocated to the segments on a reasonable basis.

C. The segment assets includes all the operation assets which the segment is using and contain especially accounts receivable trade and inventory. The segment liabilities includes all the operation liabilities which relate to the segment especially accounts payable trade and other and accrued severance pay, net.

D. The company and subsidiaries revenues can also be classified geographically.

2. Primary report on business segments

A. Revenues

	For the year ended December 31,	For the year ended December 31,	
	2008	2008	2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Products	12,160	64,418	60,041
System integration projects	2,756	14,597	41,528
Other	133	705	699
Total revenues	15,049	79,720	102,268

B. Segment results and adjustment to the profit

Products	4,219	22,348	16,842
System integration projects	(1,245)	(6,597)	1,083
Other	(2)	(11)	(109)
Unallocated corporate expenses	(1,689)	(8,943)	(8,203)
Operating profit	1,283	6,797	9,613
Unallocated corporate financing expenses, net	(1,838)	(9,743)	(3,955)
Profit (loss) for the year	(555)	(2,946)	5,658

Note 25 - Business and geographical segments (cont'd)

2. Primary report on business segments (cont'd)

C. Segment assets

	December 31,	December 31,	
	2008	2008	2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Products	4,376	23,184	20,022
System integration projects	720	3,813	9,095
Other	10	53	151
Unallocated corporate assets	14,228	75,371	83,632
Consolidated total assets	19,334	102,421	112,900

D. Segment liabilities

Products	1,734	9,185	8,600
System integration projects	1,840	9,748	8,552
Other	16	86	207
Unallocated corporate liabilities	11,836	62,702	70,777
Consolidated total liabilities	15,426	81,721	88,136

E. Capital expenditure

	For the year ended December 31,	For the year ended December 31,	
	2008	2008	2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Products	69	365	486
System integration projects	38	203	591
Unallocated capital expenditure	1,570	8,312	9,143
Consolidated total capital expenditure	1,677	8,880	10,220

F. Depreciation and amortization

Products	96	506	461
System integration projects	53	281	447
Unallocated depreciation and amortization	963	5,103	3,653
Total depreciation and amortization	1,112	5,890	4,561

Note 25 - Business and geographical segments (cont'd)

3. Secondary report on geographical segments

A. Revenues

	For the year ended December 31,	For the year ended December 31,	
	2008	2008	2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Israel	3,555	18,833	37,350
Europe	6,588	34,896	34,319
America	4,129	21,870	26,363
Other destinations	777	4,121	4,236
	15,049	79,720	102,268

B. Segment assets

	December 31, 2008	December 31, 2008	December 31, 2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Israel	820	4,343	8,407
Europe	785	4,159	2,736
America	965	5,114	12,537
Other destinations	32	167	15
Unallocated corporate assets	16,732	88,638	89,205
Consolidated total assets	19,334	102,421	112,900

C. Capital expenditure

	For the year ended December 31,	For the year ended December 31,	
	2008	2008	2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
America	28	147	40
Unallocated capital expenditure	1,649	8,733	10,180
Consolidated total capital expenditure	1,677	8,880	10,220

Note 25 - Business and geographical segments (cont'd)

D. Principal customers

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

	For the year ended December 31,	For the year ended December 31,	
	2008	2008	2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Costumer A	215	1,137	10,342

Note 26 - Profit (loss) per share

Profit (loss) for the year			
Basic and Fully diluted	(555)	(2,946)	5,658
Weighted average share capital (number of shares)			
Basic and Fully diluted	11,048,436	11,048,436	11,082,454

Note 27 - Financial Instruments and risk management

A. Financial Risk factors

The Company's operations expose it to various financial risks such as market risks (including currency risks, fair value risks relating to the rate of interest and price risks) credit risks, liquidity risks and cash flow risks relating to the rate of interest. The program for managing the Company's risks focuses on actions to reduce to a minimum the negative possible effects of the company's financial transactions.

Managing risks is carried out by the Company's management under the supervision of its Board of Directors.

1. Credit Risks

As at December 31, 2008 the company had trade account receivables and other account receivables amounting to approximately NIS 11,711 thousands. The company does not predict material credit risks in respect of trade account receivables and other account receivables.

Note 27 - Financial Instruments and risk management (cont'd)

2. Currency and Index risks

   A. Most of the engagements that the Company had in the field of the systems are generally linked to the US dollar or the Euro. In addition a considerable part of the Company's sales in the field of products are dominated or linked to the US dollar or the Euro. Changes in the rates of exchange of the dollar against the shekel and of the Euro against the shekel, mainly during the period between the signing of the agreements and payment for them, are likely to create an exposure for the Company.

   B. The Company policy is that the engagements and payments that the Company makes with sub-contractors and suppliers relating to the projects in the field of systems are denominated or linked to the US dollar or to the Euro. Therefore, changes in the rates of exchange of the US dollar against the shekel and of the Euro against the shekel are likely to create an exposure for the Company.
   It should also be stated that there is a certain protection in that in the field of systems the Company's policy is linkage of contracts with sub-contractors to the currency in which the engagement with the customer is linked.

   C. The Company has convertible bonds linked to the US dollar and bonds linked to the index for large amounts, and therefore changes in the rates of exchange of the US dollar and changes in the consumer price index can create an exposure for the Company.

   D. The Company has loans in US dollar and in Euro, and therefore changes in the rates of exchange of the US dollar and the Euro against the NIS can create an exposure for the Company.

3. Interest risks

   The company has loans denominated in US dollar and in Euro, with variable interest in a spread from Libor.

   Changes in the rates of interest are likely to affect the company's business results.

   The Company has liquid balances, which are deposited in unlinked NIS balances, bearing interest, and therefore the Company is exposed to changes in the NIS rates of interest which are likely to affect the Company's business results.

4. Instability risks

   The liquidity risk is the risk that the Company will not be able to meet its financial obligations when they fall due. The Company's approach to management of the liquidity risk is to ensure, as far as possible, a sufficient level of liquidity to meet its obligations in due time.

   The Company operates in order to enable the existence of sufficient levels of liquid means to pay the expected operating expenses and amounts required to meet its financial obligations. This does not take into account the potential effect of extreme scenarios where there is no reasonable likelihood to expect them.

5. Price risks

   The Company has investments in marketable financial instruments on the stock exchange, mainly bonds, classified as financial assets measured at fair value through the statements of operations, for which the Company is exposed to a risk for fluctuations in the price of the securities based on stock exchange market prices. The balance in the financial statements as at December 31, 2008, of these investments, is NIS 27,700 thousands (2007 – NIS 38,617 thousands).

Note 27 - Financial Instruments and risk management (cont'd)

5. Price risks

B. Instability risks

The following table presents the contractual maturities dates of the financial liabilities:

December 31, 2008:

	1th year	2th year	3th year	4th year	5th year and after	Total
			NIS, (in thousands)			
Accounts payable - trade	9,545	-	-	-	-	9,545
Accounts payable - other	8,726	-	-	-	-	8,726
Loans from banks and others	1,011	904	904	904	4,516	8,239
Convertible bonds	8,750	8,750	-	-	-	17,500
bonds	7,180	7,180	7,180	7,180	7,180	35,900
	35,212	16,834	8,084	8,084	11,696	79,910

December 31, 2007:

	1th year	2th year	3th year	4th year	5th year and after	Total
			NIS, (in thousands)			
Accounts payable - trade	12,630	-	-	-	-	12,630
Accounts payable - other	7,567	-	-	-	-	7,567
Loans from banks and others	1,070	1,044	942	942	5,650	9,648
Convertible bonds	8,750	8,750	8,750	-	-	26,250
bonds	-	6,870	6,870	6,870	13,739	34,349
	30,017	16,664	16,562	7,812	19,389	90,444

C. Fair value

The following table presents the balances in the financial statements and the fair value of financial instruments which are not presented in the financial statements according to their fair value:

	Book value		Fair value	
	December 31,		December 31,	
	2008	2007	2008	2007
	NIS, (in thousands)			
Financial liabilities (1)				
Convertible bonds linked to the USD	(16,646)	(24,358)	(15,172)	(25,594)
Convertible bonds in Euro	-	(1,956)	-	(773)
Convertible bonds linked to the Israeli CPI	(33,226)	(30,941)	(24,650)	(32,035)

(1) The fair value is based on stock market value as at the balance sheet date.

Note 27 - Financial Instruments and risk management (cont'd)

D. Monetary Assets and Liabilities Classified by Linkage Basis

	December 31, 2008				
	Israeli currency		Other currencies		
	Not linked	Linked to the Israeli CPI	Euro	US dollars	Total
NIS, (audited), (in thousands)					
Current assets	22,309	12,576	8,794	10,063	53,742
Current liabilities	(16,436)	(7,287)	(1,123)	(10,564)	(35,410)
Long-term liabilities	-	(26,046)	(3,910)	(11,214)	(41,170)
	5,873	(20,757)	3,761	(11,715)	(22,838)
Convenience translation into URO, (unaudited), in thousands					
Current assets	4,211	2,374	1,660	1,900	10,145
Current liabilities	(3,102)	(1,376)	(212)	(1,994)	(6,684)
Long-term liabilities	-	(4,917)	(738)	(2,117)	(7,772)
	1,109	(3,919)	710	(2,211)	(4,311)

	December 31, 2007				
	Israeli currency		Other currencies		
	Not linked	Linked to the Israeli CPI	Euro	US dollars	Total
NIS, (audited), (in thousands)					
Current assets	17,868	26,025	5,298	19,663	68,854
Current liabilities	(13,969)	(127)	(5,946)	(11,930)	(31,972)
Long-term liabilities	-	(31,043)	(4,700)	(19,546)	(55,289)
	3,899	(5,145)	(5,348)	(11,813)	(18,407)

E. Sensitivity analyses for changes in market factors

	Sensitivity analyses for changes in the USD interest rate	
	2% rate increase	1% rate decrease
	NIS (in thousands)	
2008	424	(212)
2007	608	(304)

	Sensitivity analyses for changes in the USD interest rate	
	2% rate increase	1% rate decrease
	NIS (in thousands)	
2008	88	(44)
2007	104	52

Note 27 - Financial Instruments and risk management (cont'd)

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

	Sensitivity analyses for changes in the USD exchange rate	
	5% increase	5% decrease
	NIS (in thousands)	
2008	246	(246)
2007	635	(635)

	Sensitivity analyses for changes in the Euro exchange rate	
	5% increase	5% decrease
	NIS (in thousands)	
2008	188	(188)
2007	(267)	267

	Sensitivity analyses for changes in the CPI	
	5% increase	5% decrease
	NIS (in thousands)	
2008	(1,037)	1,037
2007	(796)	(257)

	Sensitivity analyses for changes in the marketable securities market rates	
	5% increase	5% decrease
	NIS (in thousands)	
2008	1,385	(1,385)
2007	3,862	(3,862)

Sensitivity analyses and the main working assumptions

The changes chosen in the relevant risk factors were determined in accordance with management's evaluations regarding possible and reasonable changes in these risk factors.

The Company prepared sensitivity analyses for the main market risk factors, which would affect the result of operations or the financial condition reported. The sensitivity analyses present the profit or loss or change in shareholders' equity (before tax) for every financial instrument, for the relevant risk factor chosen for it, correct as of every date of report. Examining the risk factors was done on the basis of the significant exposure of the results of operations or the financial condition for every risk factor relating to the functional currency and on the assumption that all the other factors are fixed.

Note 27 - Financial Instruments and risk management (cont'd)

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

Managing the Company's capital

The object of the Company in managing shareholders' equity is to maintain the Company's ability to ensure continuity of business and create a return for its shareholders, investors and other interested parties.

The Company operates to achieve a return on capital at the level acceptable in the branch and in the field of operations in the markets in which the Company operates. This return can be subject to changes according to the market factors in the branch and in the Company's business environment. The Company is not subject to any demands regarding minimum capital required or achieving a certain level of return on capital.

Note 28 - Disclosure regarding the adoption of International Financial Reporting Standards (IFRS)

As described in Note 2A, these financial statements as at December 31, 2008 are the first annual statements prepared according to the International Financial Reporting Standards (IFRS). The Company first adopted the IFRS in 2008; therefore the transition date for reporting in accordance with IFRS is January 1, 2007. The company prepared opening balance sheet for the transition date, from which it started reporting in accordance with IFRS.

Prior to the adoption of IFRS, the financial statements were prepared according to Israeli GAAP. The last annual financial statements according to Israeli GAAP were prepared as at December 31, 2007 and for the year then ended.

Accordingly the Company presents the following reconciliation between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS as at January 1, 2007 (the transition date for reporting in accordance with IFRS) and as at December 31, 2007 and for the year then ended.

IFRS 1 states that the adoption of the IFRS in the opening balance sheet on the transition date will be done retrospectively.

The following are the exemptions the Company chose under IFRS 1 and for which the Company does not retrospectively adopt the transition to reporting in accordance with IFRS:

Translation differences from foreign operations

Translation differences, which occurred before the transition date, from foreign operations were not accumulated; therefore, the capital reserve from translation adjustments, resulting from the translation of financial statements of foreign operations, as at January 1, 2007, is zero.

Share-based payment

International Financial Reporting Standard No. 2, which deals with share-based payment transactions, will not be implemented regarding capital instruments granted and which were vested prior to the transition date.

Allocation of financial instruments recognized in the past

On January 1, 2007, the Company has allocated financial instruments (which comply with certain conditions according to IAS 39 (which deals with the recognition and measurement of financial instruments) to a group of financial assets measured at their fair value through profit and loss, as no such allocation was done on the initial date of recognition (i.e. on the date of purchase the financial assets).

Note 28 - Disclosure regarding the adoption of International Financial Reporting Standards (IFRS) (cont'd)

A. The following are the balance sheet reconciliations between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS:

		January 1, 2007		
	Notes	Israeli GAAP	Reconciliations	IFRS
		(NIS, in thousands)		
Current assets				
Cash and cash equivalents		39,906	-	39,906
Marketable securities		30,390	-	30,390
Accounts receivable -				
Trade	4	15,675	5	15,680
Other	1	566	69	635
Inventory	4	13,663	(45)	13,618
Inventory - work in progress		194	-	194
		100,394	29	100,423
Non current assets				
Long-term deposits		339	-	339
Property and equipment, net	1,4	22,019	(3,481)	18,538
Prepaid leasehold rights expenses, net	1	-	3,141	3,141
Intangible assets, net		750	-	750
		23,108	(340)	22,768
Total assets		**123,502**	**(311)**	**123,191**
Current liabilities				
Current maturities of non current liabilities		11,720	-	11,720
Accounts payable -				
Trade		12,112	-	12,112
Other	7,8	11,444	488	11,932
Warrants	2b	-	1,829	1,829
		35,276	2,317	37,593
Non current liabilities				
Loans from banks and others		9,978	-	9,978
Convertible bonds	2a, 2c	25,331	(584)	24,747
Bonds		29,859	-	29,859
Conversion option of convertible bonds	2a	-	1,003	1,003
Liabilities for benefits to employees	3	1,628	(1,135)	493
		66,796	(716)	66,080
Shareholders' equity		21,430	(1,912)	19,518
Total liabilities and shareholders' equity		**123,502**	**(311)**	**123,191**

Note 28 - Disclosure regarding the adoption of International Financial Reporting Standards (IFRS) (cont'd)

A. The following are the balance sheet reconciliations between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS (cont'd)

		December 31, 2007		
	Notes	Israeli GAAP	Reconciliations	IFRS
		(NIS, in thousands)		
Current assets				
Cash and cash equivalents		16,085	-	16,085
Marketable securities		38,617	-	38,617
Accounts receivable -				
Trade	4	13,995	-	13,995
Other	1	180	69	249
Inventory	4	12,981	(1)	12,980
Inventory - work in progress		319	-	319
		82,177	68	82,245
Non current assets				
Long-term deposits		444	-	444
Property and equipment	1,4	22,217	(3,493)	18,724
Prepaid lease hold rights				
expenses, net	1	-	3,072	3,072
Intangible assets, net		8,415	-	8,415
		31,076	(421)	30,655
Total assets		**113,253**	**(353)**	**112,900**
Current liabilities				
Current maturities of non				
current liabilities		11,775	-	11,775
Accounts payable -				
Trade		12,630	-	12,630
Other	7	7,856	374	8,230
Warrants	2b	-	211	211
		32,261	585	32,846
Non-current liabilities				
Loans from banks and others		8,578	-	8,578
Convertible bonds	2a,2c	15,936	(327)	15,609
Bonds		30,941	-	30,941
Conversion option of				
convertible bonds	2a	-	1	1
Liabilities for benefits to				
Employees, net	3	1,546	(1,385)	161
		57,001	(1,711)	55,290
Shareholders' equity		23,991	773	24,764
Total liabilities and shareholders' equity		**113,253**	**(353)**	**112,900**

Note 28 - Disclosure regarding the adoption of International Financial Reporting Standards (IFRS) (cont'd)

B. The following are the reconciliations to statement of operations between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS (cont'd)

		For the year ended December 31, 2007		
	Notes	**Israeli GAAP**	**Reconciliations**	**IFRS**
		(NIS, in thousands)		
Revenues	8	102,353	(85)	102,268
Cost of revenues	7	70,787	78	70,865
Gross profit		31,566	(163)	31,403
Development expenses, net		1,562	85	1,647
Selling & marketing expenses		13,502	65	13,567
General & administrative expenses	1,3,6	6,682	(106)	6,576
Operating profit		9,820	(207)	9,613
Financing income	2a,2b,5	-	4,695	4,695
Financing expenses	2a,4,5,8	7,046	1,604	8,650
Profit for the year		2,774	2,884	5,658
Profit per 1 ordinary share NIS 0.02 par value		0.250	0.261	0.511

Note 28 - Disclosure regarding the adoption of International Financial Reporting Standards (IFRS) (cont'd)

C. Notes to the adjustments to the financial statements, between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS

1. Leasehold rights in land from the Israel Lands Administration

According to the agreement for the acquisition of rights dated July 23, 2000, with Airport City Ltd. (hereinafter: "APC"), the Company was granted capitalized leasehold rights (91%) on the ground floor (with a basement), and the first floor in the building called Unitronics House for 49 years from the date of approval of the transaction by the government (Minhal). For this acquisition, the Company paid an amount of NIS 3,471 thousand.

According to Israeli GAAP, these amounts paid for the leasehold rights were presented in the framework of fixed assets, as non depreciable land.

According to IFRS, this leasing is classified in accordance with IAS17 - "leasing" as operating lease and therefore the amounts paid are prepaid leasing fees.

On the transition to reporting in accordance with IFRS, as at January 1, 2007, the amounts in the fixed assets are classified and presented in the framework of other assets and deferred expenses, net, and amortized over the period of use of the rights, i.e. 49 years.

2. Warrants, convertible bonds and allocating the consideration on the issue of a parcel

a. Convertible Bonds

In May 2004, the Company issued bonds convertible to ordinary shares of the Company, where the conversion price is linked to the exchange rate of the dollar. According to the transitory directives of Israel Accounting Standard No. 22 (hereinafter: "Standard 22) of the Israel Accounting Standards Board - "Financial Instruments: Disclosure and Presentation", these bonds are complex financial instruments including a liability component and a capital component. Accordingly, the proceeds received from the issue of the bonds were split into these components according to the provisions of Standard 22.

According to IAS 32 - "Financial Instruments: Presentation", as the conversion component is linked to the exchange rate of the dollar and is not fixed in shekel terms (the Company's functional currency), it is a financial liability and not a capital component. The conversion component is measured according IAS 39 - "Financial Instruments: Recognition and Measurements", on the basis of its fair value, where the changes of the fair value of this component are recorded in the statement of operations each period.

b. Warrants

According to Israeli GAAP, in accordance with the provisions of Standard 22 of the Israel Accounting Standards Board, a consideration of NIS 1,138 thousand was allocated to warrants, where the exercise addition is linked to the dollar, are presented in the framework of the Company's share capital.

According to IAS 32 - "Financial Instruments: Presentation", these warrants are financial liabilities as the exercise addition for them is not fixed and, therefore, are presented in the framework of liabilities. The measurement of the liabilities is according to IAS 39 ""Financial Instruments: Recognition and Measurements"; therefore, the warrants are presented at their fair value on every balance sheet date, while the change in fair value are recorded in the statement of operations.

Note 28 - Disclosure regarding the adoption of International Financial Reporting Standards (IFRS) (cont'd)

C. Notes to the adjustments to the financial statements, between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS (cont'd)

2. Warrants, convertible bonds and allocating the consideration on the issue of a parcel (cont'd)

   c. Issue of a parcel

   According to Israeli GAAP, based on the provisions of Standard 22 of the Israel Accounting Standards Board, the Company, at the time of the issue of a parcel which includes shares, warrants and bonds, split the consideration from the issue according to the ratio of the components' value of the parcel, according to the average of the three trading days after the date of the issue.

   On the transition to reporting in accordance with IFRS, in accordance with IAS 32 - "Financial Instruments: Presentation", at the time of the issue of the said parcel, the proceeds from the issue were first related to financial liabilities which are periodically measured at their fair value and, thereafter, to financial liabilities measured on the date of first recognition only, at fair value, and the value related to the shares component is considered as a capital instrument and calculated as at its residual value.

3. Benefits to employees

According to Israeli GAAP, liabilities for severance pay are measured on the basis of the product of the number of years of work and the last month salary of the employee for each balance sheet date in accordance with the 'shut-down' method, and the funded amount for severance pay is measured according to redemption value on every balance sheet date.

According to IAS 19 - "Benefits to Employees", the Company's severance pay program is considered as a defined benefit program; therefore, the liability for severance pay must be presented on an actuarial basis. The actuarial calculation takes into account future wage increases and the rate of employees leaving, and this on the basis of evaluating the timing of the payment.

The amounts are presented on the basis of the discounting of future expected cash flows method, according to rates of interest of NIS government bonds (according to the company's opinion there is no market, which have a sufficient trade volumes, in order to enable to determine a proper capitalization rates), whose due date is close to liabilities relating to severance pay. Moreover, the assets for benefits for employees are measured at their fair value.

The company implements the alternative of recognizing all actuarial profits (losses) directly to the retained earnings, because this method reflects the fair value of the net liabilities to the employees as at the balance date. In addition, according to this method, the statements of operations reflect fairly the results of operation by preventing volatility from actuarial profits (losses).

4. Functional currency

According to Israeli GAAP, the currency in which the financial statements of the subsidiary in Israel are measured is the NIS. The subsidiary which is located and operates in the U.S. is, according to Israeli GAAP, a long arm; therefore, the translation differences resulting from the translation of financial statements of the subsidiary have been booked to the statement of operations (in the 'financing expenses').

According to IAS 21 - "the Effect of Changes in the Rates of Exchange of Foreign Currency", the Company is required to determine its functional currency, and of each of the companies in the Group, according to the currency of the main economic environment in which each of them operates, and this according to the criteria set forth in IAS 21. The Company's management came to the conclusion that the Company's functional currency, and that of its subsidiary in Israel, is the NIS. The functional currency of the subsidiary located and operating in the U.S. is the US dollar.

Furthermore, the Company's management chose the NIS as the presentation currency of the Group's consolidated financial statements.

The Company chose, in accordance with the provisions of IFRS 1, not to accumulate translation differences as at January 1, 2007.

Note 28 - Disclosure regarding the adoption of International Financial Reporting Standards (IFRS) (cont'd)

C. Notes to the adjustments to the financial statements, between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS (cont'd)

5. Financing income and expenses

According to Israeli GAAP, financing income and expenses were presented, net, in the statement of operations. According to IFRS, financing income and financing expenses should be presented separately in the statement of operations and, therefore were presented separately.

6. Share based payments

According to the provisions of Accounting Standard No. 24 of the Israel Accounting Standards Board - "Share-based Payments", the Company recognized, in accordance with the transitory provisions determined for that, the exemption for grants to employees only regarding share based payment transactions and settled with capital instruments, made after March 15, 2005, and which were not yet vested as at January 1, 2006.

On the transition to reporting in accordance with IFRS, the Company implements IFRS 2 - "Share-Based Payments", which stipulates also regarding grants of such capital instruments carried out prior to March 15, 2005, but after November 7, 2002, and which have not yet been vested as at January 1, 2007, that a financial measurement of the benefit must be made.

7. Liability to the Chief Scientist for government grants

According to Israeli GAAP, the grants of the Chief Scientist are recorded as revenues (a reduction of an expense) on the date of their receipt. The royalties are a repayment of the grant and are recorded to cost of sales on the date of the actual payment.
On the transition to reporting in accordance with IFRS, and according to IAS 37 - "Contingent Liabilities", the grants of the Chief Scientist received will be recognized as a liability to the extent expected that the amount will be repaid. This liability is recognized at its present value. The amount of the liability is examined during every reporting period with the changes being posted to the statement of operations.

8. Embedded derivatives

The Company has transactions for the system integration projects partly linked to the USD/Euro, which is not the functional currency of any of the parties to the transaction. According to Israeli GAAP, these transactions are handled as one group and are not separated into their components. The amounts of the transactions (including exchange rate differences for them) are recorded at the time of their accrual to the statement of operations. In accordance with the provisions of IAS 39 - "Financial Instruments: Recognition and Measurement", these transactions are considered transactions which include embedded derivatives which must be separated from the host contract (Sales transaction) not including transactions linked to the USD which signed before December 31, 2006 which considered as transactions in commonly used currency according to IAS39 - paragraph AG33(d). The embedded derivatives, as mentioned, should be separated from the sales transactions and measured separately on the balance sheet date, according to their fair value. The changes in the fair value of the embedded derivatives, so separated, will be recorded periodically in the statement of operations.

On the transition to reporting in accordance with IFRS, as at January 1, 2007, the embedded derivatives have been measured, in the sale transactions linked to the Euro mentioned above, at their fair value. The amounts of fair value of these embedded derivatives, which on the said date total a liability of NIS 103 thousand, are recorded on the transition to IFRS on this date against retained earnings.

Note 29 - After balance sheet date events

After the balance sheet date the company purchased NIS 300 thousands bonds (series 1) and NIS 7,100 thousands bonds (series 2) for NIS 5,558 thousands.
As a result of the purchase the company recorded gain from early redemption of bonds at a sum of NIS 1.8 million.

Note 30 - Separate Financial statements of the company

A. Balance sheets

	December 31, 2008	December 31, 2008	December 31, 2007
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Current assets			
Cash and cash equivalents	2,297	12,167	7,418
Marketable securities	5,229	27,700	38,617
Accounts receivable -			
Trade	1,672	8,859	12,441
Other	871	4,616	9,296
Inventory	2,359	12,494	12,035
Inventory - work in progress	-	-	319
	12,428	65,836	80,126
Non current assets			
Long-term deposits	25	134	444
Loans to subsidiary	1,510	8,000	8,000
Investment in subsidiaries	(*) -	1	1
Property and equipment, net	3,394	17,981	18,584
Prepaid leasehold rights expenses, net	567	3,002	3,072
Intangible assets, net	2,602	13,781	8,415
	8,098	42,899	38,516
	20,526	**108,735**	**118,642**
Current liabilities			
Current maturities of non current liabilities	3,198	16,941	11,775
Accounts payable -			
Trade	1,763	9,337	12,421
Other	2,429	12,868	7,908
Warrants	3	18	211
	7,393	39,164	32,315
Non current liabilities			
Loans from banks and others	1,364	7,228	8,578
Convertible bonds	1,490	7,896	15,609
Bonds	4,917	26,046	30,941
Conversation option of convertible bonds	-	-	1
Liabilities for benefits to employees, net	152	803	161
	7,923	41,973	55,290
Shareholders' equity	5,210	27,598	31,037
	20,526	**108,735**	**118,642**

(*) less then 1,000 Euro.

Note 30 - Separate Financial statements of the company (cont'd)

B. Statements of operations

	For the year ended December 31,	For the year ended December 31,	
	2008	2008	2007
	(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS	
Revenues	14,120	74,799	97,114
Cost of revenues	9,867	52,271	68,701
Gross profit	4,253	22,528	28,413
Development expenses, net	305	1,617	1,647
Selling & marketing expenses	1,710	9,057	9,781
General & administrative expenses	851	4,508	5,847
Operating profit	1,387	7,346	11,138
Financing income	54	286	4,602
Financing expenses	1,906	10,102	8,650
Profit (loss) for the year	(465)	(2,470)	7,090

Note 30 - Separate Financial statements of the company (cont'd)

C. Statements of shareholder's equity

	Share capital	Capital Reserves from share-based payments	Share premium	Company shares held by the company	Accumulated loss	Total
			NIS in thousands			
Balance at January 1, 2007	352	279	50,250	(2,640)	(24,466)	23,775
Purchase of company shares by the company	-	-	-	(213)	-	(213)
Benefit arising from warrants granted	-	44	-	-	-	44
Actuarial profits	-	-	-	-	341	341
Profit for the year	-	-	-	-	7,090	7,090
Balance at December 31, 2007	352	323	50,250	(2,853)	(17,035)	31,037
Purchase of company shares by the company	-	-	-	(78)	-	(78)
Benefit arising from warrants granted	-	3	-	-	-	-
Actuarial losses	-	-	-	-	(894)	(894)
Loss for the year	-	-	-	-	(2,470)	(2,470)
Balance at December 31, 2008	352	326	50,250	(2,931)	(20,399)	27,598

	Share capital	Capital Reserves from share-based payments	Share premium	Company shares held by the company	Accumulated loss	Total
			Convenience translation into EURO, in thousands (unaudited)			
Balance at January 1, 2008	66	61	9,486	(538)	(3,216)	5,859
Purchase of company shares by the company	-	-	-	(15)	-	(15)
Benefit arising from warrants granted	-	-	-	-	-	-
Actuarial losses	-	-	-	-	(169)	(169)
Profit for the year	-	-	-	-	(465)	(465)
Balance at December 31, 2008	66	61	9,486	(553)	(3,850)	5,210

(*) less then 1,000 Euro.

Note 30 - Separate Financial statements of the company (cont'd)

D. Statements of cash flows

	For the year ended December 31,	For the year ended December 31,	
	2008	2008	2007
		(in thousands)	
	Convenience translation into EURO, (unaudited) (1)	NIS	
Cash flows from operating activities			
Profit (loss) for the year	(465)	(2,470)	7,090
Adjustments necessary to show the cash flows from operations (Appendix A)	3,616	19,161	(7,638)
Cash flows provided by operating activities	3,151	16,691	(548)
Cash flows for investing activities			
Sale of (investment in) marketable securities, net	1,587	8,405	(9,030)
Purchase of property and equipment	(198)	(1,047)	(1,956)
Investment in long-term deposits	-	-	(201)
Repayment of long-term deposits	20	106	73
Investment in intangible assets	(1,452)	(7,689)	(8,022)
Cash flows used in investing activities	(43)	(225)	(19,136)
Cash flows for financing activities			
Repayment of long-term loans	(191)	(1,010)	(1,229)
Repayment of convertible bonds	(2,006)	(10,629)	(10,723)
Purchase of company shares by the company	(15)	(78)	(213)
Cash flows used in financing activities	(2,212)	(11,717)	(12,165)
Change in cash and cash equivalents	896	4,749	(31,849)
Cash and cash equivalents at beginning of year	1,401	7,418	39,267
Cash and cash equivalents at end of year	2,297	12,167	7,418

Note 30 - Separate Financial statements of the company (cont'd)

D. Statements of cash flows (cont'd)

	For the year ended December 31,	For the year ended December 31,	
	2008	2008	2007
		(in thousands)	
	Convenience translation into EURO, (unaudited) (1)	NIS	
Appendix A - Adjustments necessary to show the cash flows from operations			
Depreciation and amortization	1,100	5,832	4,509
Loss from marketable securities, net	474	2,512	803
Benefit arising from warrants granted	(*) -	3	44
Increase (decrease) in viabilities for benefits to employees	(48)	(253)	10
Reevaluation of warrants and conversion option of convertible bonds	(37)	(194)	(2,620)
Exchange rate changes of long-term loans and convertible bonds	200	1,057	211
Reevaluation of Embedded derivatives	41	215	(103)
Decrease in accounts receivable - trade	676	3,582	934
Decrease (increase) in accounts receivable - other	922	4,885	(9,679)
Decrease (increase) in inventory	(87)	(459)	1,019
Decrease in inventory - work in progress	60	319	110
Increase (decrease) in accounts payable - trade	(582)	(3,084)	524
Increase (decrease) in accounts payable - other	897	4,746	(3,400)
	3,616	19,161	(7,638)

(*) less then 1,000 Euro.

Chapter D - Additional Details about the Corporation (Reg. 10C - 29A)

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

The Company raised, under the 2006 Prospectus dated August 16, 2006, a net amount (less issuance expenses) of approx. NIS 30 million in respect of the allotment of 100,000 units comprising NIS 34 million par value bonds (Series 2) and 600,000 warrants (Series 2), convertible into Ordinary Shares.

The proceeds of the offering were designated, pursuant to the 2006 Prospectus, for financing the Company's operations, as the Company's Board of Directors would decide from time to time.

4.2 List of Investments in Active Subsidiaries and in Related Companies (Reg. 11)

Below are details regarding the Company's investments in active subsidiaries and in related companies as of the balance sheet date:

Subsidiary	**Class of Share**	**No. of Shares**	**Total Par Value**
Unitronics House Management and Maintenance (2003) Ltd.	Ordinary - NIS 1	1,000	NIS 1,000
Unitronics Inc. (foreign company)	Ordinary - US $0.01	1,000	US $10

Subsidiary	**Book Cost**	**Book Value**	**Share of Company's holdings in equity, voting and in power to appoint directors out of the total issued shares**
	NIS in thousands		
Unitronics House Management and Maintenance (2003) Ltd.	1	(69)	100%
Unitronics Inc. (foreign company)	***0**	(6,828)	100%

(*)An amount less than NIS 1,000

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

None.

4.4 Revenues of Active Subsidiaries and Related Companies and Income therefrom (Reg. 13)

Below are details of the profits / losses of the Company's active subsidiaries and its related companies as of the balance sheet date, before and after provision for tax, in the last reported year that ended on or prior to the balance sheet date, and details with regard to dividends, management fees and interest, up to the balance sheet date and thereafter:

For the year ended December 31, 2008:

Subsidiary	Profit (Loss) Before Tax	Profit (Loss) After Tax	Dividend	Management Fees	Interest Revenues
	NIS in thousands				NIS in thousands
Unitronics House Management and Maintenance (2003) Ltd.	(13)	(13)	-	-	-
Unitronics Inc.	(490)	(490)	-	-	-

The Company did not receive any dividend, interest or management fees after the balance sheet date.

4.5 List of Loans (Reg. 14)

Not applicable (the provision of loans is not part of the Company's core business).

4.6 Trading on the Stock Exchange (Reg. 20)

During the reported year none of the securities issued by the Company were listed for trading on the Stock Exchange, and the trading of the securities already issued by the Company was not halted.

The Company holds a total of 664,880 dormant shares; these dormant shares do not vest the Company with any rights (including voting rights and/or rights to capital). (For details see section 1.4.2 above and section 4.9 below).

On February 20, 2006, the Company's Audit Committee and Board of Directors approved the Company's market-making agreement with Harel Investments House Ltd. (hereinafter "**Harel**"), pursuant to which Harel shall act as market maker for the Company's shares pursuant to the Tel-Aviv Stock Exchange Regulations and in accordance with the instructions and decisions of the Board of Directors of the Tel-Aviv Stock Exchange. The agreement entered into effect on March 1, 2006, following the approval by the Tel-Aviv Stock Exchange of the appointment of Harel as market maker of the Company's shares (for details of the terms of the agreement, see the immediate report of February 21, 2006).

The agreement with Harel is in addition to the agreement between the Company and a Sponsor Market Maker in Belgium, which was entered into upon the listing of the Company's shares in the EuroNext Stock Exchange in Brussels, Belgium, pursuant to the requirements applicable to the Company as a company whose shares are traded on the EuroNext Stock Exchange in Brussels, to ensure the frequency and liquidity of the trading of the Company's shares on the Belgian Stock Exchange. Since 2001, Leleux Associated Brokers S.A. (hereinafter, "**Leleux**") has been serving in this position, in accordance with the Liquidity and Market Making Agreement between the Company and Leleux. In accordance with the agreement, Leleux undertook to take all measures required of a market maker, pursuant to any law, including for the purpose of guaranteeing the frequency and liquidity of the trading in the Company's shares in accordance with the requirements of the Belgian Stock Exchange. For the purpose of compliance with this undertaking and in accordance with the requirements applicable to the Company as a company whose shares are traded on the Belgian Stock Exchange, the Company was required to make available to Leleux 50,000 of the Company's shares, and also the ability to make use of the amount of Euro 50,000, all for the purpose of buying and selling the Company's shares, in the course of the performance of Leleux's duties as a market maker. The

abovementioned required amount of shares was provided to Leleux by Mr. Haim Shani and Ms. Bareket Shani (who was also, at that time, a shareholder of the Company), interested parties of the Company (and are included in the count of the holdings of Mr. Shani, as set forth in Section 4.9 below). In accordance with the agreement, Leleux is required to return these shares to Messrs. Shani, and to return to the Company the abovementioned amount, in cash, within six months from the expiration of the agreement. The agreement is for an unlimited period of time, and may be cancelled by mutual consent and with the approval of the stock exchange authorities in Belgium, in which case Leleux is required to continue to perform its duties as market maker, until the appointment of a replacement market maker.

4.7 Payments to Senior Officers (Reg. 21)

4.7.1 Below are details of the payments made by the Company and all payment undertakings (in cash and/or cash equivalents, loans, rights and any other benefit) which the Company took upon itself in the reported year, including with regard to retirement terms, for each of the five officers receiving the highest pay from among the Company's senior officers:

Name	Position	Scope of Position	Holding Rate in Corporate Capital	Pay (NIS thousands)	Grant	Share-Based Payment	Management Fee	Commission	Interest	Rent	Other	Total (NIS thousands)
Haim Shani	CEO and Chairman of Board of Directors	100%	55.75%	929								929
Alon Kedar	Deputy CEO & General Manager of Products Department	100%		556	164							720
Bareket Shani	Deputy CEO and Manager of Human Resources	100%		556								556
Amir Anchel	Project Manager	100%		499								499
Benny Magrafta	Manager of department under development	100%		489								489
	Other directors[5]											118
	Other directors			118								118

4.7.2 Mr. Haim Shani and Ms. Bareket Shani –The Company is bound by personal employment agreements with Mr. Haim Shani (controlling shareholder and Chairman of the Board of Directors) and with Ms. Bareket Shani (wife of Mr. Shani, who serves also as member of the Board of Directors) effective until December 2008, subject to extension by additional five-year periods (subject to all approvals required by law). In accordance with the agreements, Mr. Shani serves as the Company's CEO and Ms. Shani as Deputy CEO and manager of human resources.

On April 12, 2005, the General Meeting of the Company's shareholders approved, following approval by the Audit Committee and Board of Directors, the payment of a special bonus to Mr. Haim Shani, as compensation for his contribution to the successful performance of the Company in the few years preceding 2004 in general, and in 2004 in particular. In addition, the general meeting of the Company's shareholders approved a framework transaction pursuant to which Mr. Haim Shani is to receive an annual bonus for each calendar year starting from 2005, for as long as he is employed as the Company's CEO (hereinafter: the **"Future Bonuses"**).

On March 27, 2006 the Audit Committee and the Board of Directors approved an amendment to the employment agreement between the Company and Mr. Haim Shani, according to which the payment of Mr. Shani's present salary, amounting to a total

[5] Including Mr. Ron Mishael, who served as an outside director of the Company until December 15, 2008, and holds options for purchasing 10,000 Company shares under the 2003 Option Plan of the Company (see Section 4.10.3c below).

gross monthly salary of $15,000, plus the Future Bonuses (hereinafter: the "**Total Salary**"), will be divided such that a part of the Total Salary will be paid by the subsidiary Unitronics Inc., and the balance of the Total Salary will be paid by the Company, in respect of his services as its CEO.

On May 21, 2008, the Audit Committee and Board of Directors resolved to approve the extension of each of the aforementioned agreements, with all the amendments thereto, by an additional five-year period, effective from January 2009, under the same terms.

(For further details regarding the employment agreements with Mr. Shani and Ms. Bareket Shani, the agreements' amendments and terms, and also regarding the resolutions to extend their employment agreements, see Section 1.14.4 of this report, and also an immediate report concerning a transaction with a controlling shareholder or director that does not need the General Meeting's approval, dated May 21, 2008.)

4.7.3 Mr. Alon Kedar – On May 1999, an employment agreement (in this section, hereinafter: the "**Agreement**") was signed between the Company and Mr. Alon Kedar for an unspecific period, and it was stipulated that any party thereto may terminate it at any time by giving 60-days' advance notice in writing.

As per an amendment from March 30, 2003, Mr. Kedar is entitled to a gross monthly salary of NIS 30,480.35, and once the Company posts a positive cash flow, to a gross monthly salary of NIS 33,131.35. Under the agreement, besides a fixed salary, Mr. Kedar is entitled to a bonus at the rate of 3.5% to 5% of the annual growth in the sales of the Company's principal PLCs (after deduction of certain third-party commissions, provided the grant does not exceed an amount equivalent in shekels to US$120,000, gross, per year. It was further stipulated in the agreement that Mr. Kedar is entitled to the following fringe benefits: contributions to directors' and officers' insurance policy, pension fund, continuing education fund and provision of a car for his use. In addition, Mr. Kedar is entitled to social benefits under the agreement (vacation days, sick days and convalescence pay).

4.7.4 Mr. Amir Anchel – On September 25, 2001, an employment agreement was signed (in this section, hereinafter: the "**Agreement**") between the Company and Mr. Amir Anchel. The agreement was made for a non-specific period, and it was stipulated that a party thereto may terminate it at any time by giving 30-days' advance notice in writing.

Mr. Anchel is employed by the Company on an hourly basis, according to the Company's needs. As per an amendment from May 15, 2006, Mr. Anchel's gross salary is calculated according to NIS 117.00 gross, per work hour. It is further stipulated in the agreement that Mr. Anchel is entitled to the following fringe benefits: contributions to the directors' and officers' insurance policy, pension fund, continuing education fund and provision of a car for his use. In addition, Mr. Anchel is entitled under the agreement to social conditions (vacation days, sick days and convalescence pay).

4.7.5 Benny Magrafta – On February 1, 2001, an employment agreement was signed (in this section, hereinafter: the "**Agreement**") between the Company and Mr. Magrafta. The agreement was made for a non-specific period, and it was stipulated that a party thereto may terminate it at any time by giving 30-days' advance notice in writing.

As per an amendment from May 1, 2006, Mr. Magrafta is entitled to a gross monthly salary of NIS 28,000. It is further stipulated in the agreement that Mr. Magrafta is entitled to the following fringe benefits: contributions to the directors' and officers'

liability insurance policy, pension fund, continuing education fund and provision of a car for his use. In addition, Mr. Magrafta is entitled under the agreement to social conditions (vacation days, sick days and convalescence pay).

4.7.6 Salary and Benefits

Below are details, to the best of the Company's knowledge, of the benefits received by each of the interested parties in the Company, directly or indirectly, or benefits which he is entitled to receive from the Company, from a subsidiary, or from a related company, in the reported year:

During the reported period, the Company paid to interested parties employed by the Company a total amount of NIS thousand (including related payments), according to the following breakdown:

Interested Party	**Paid by Balance Sheet Date**
	NIS in thousands
Haim Shani	929
Bareket Shani	556
Other directors	118

4.8 Transactions with Interested Parties (Reg. 22)

4.8.1 As per the decision of the Audit Committee and the Company's Board of Directors in May 2003, Unitronics House Management and Maintenance (2003) Ltd. ("**Unitronics Management**"), a wholly owned subsidiary of the Company, provides management and maintenance services for the Unitronics floors. These services include, primarily, service for elevators and air conditioning, electrical and fire detection systems at Unitronics House (contacting various contractors in case of malfunction and/or for servicing and/or periodic testing, as per manufacturer's/supplier's instructions) as well as provision of cleaning, pest control, gardening and security services (via subcontractors). In return for these services, Unitronics Management charges monthly management fees at a rate of about $2.0 per square meter of each tenant's space at Unitronics House, and in addition charges separately for electricity consumption according to readings of separate meters for Unitronics and for the other tenants at Unitronics House (who share the expense, pro-rated to the area used by each tenant).

Unitronics Management also provides such management and maintenance services to the Private Floors at Unitronics House, leased by a company wholly owned by Mr. Haim Shani and Mrs. Bareket Shani. There is no written contract between Unitronics, Unitronics Management and Mr. and Mrs. Shani with regard to the management services. In actual fact, Mr. and Mrs. Shani charge the tenants leasing the Private Floors (including the Company) the full management fee charged by Unitronics Management, and said tenants pay Unitronics Management directly for management services at the same rate per square meter paid by Unitronics (other than for consumption of electricity, where each tenant is charged according to his own separate electricity meter).

For these services, Unitronics Management was paid in total NIS 1,230 thousand, NIS 1,226 thousand and NIS 1,238 thousand for the years 2006, 2007 and 2008 respectively;

of which NIS 530 thousand, NIS 527 thousand and NIS 533 thousand, respectively, were paid by the Company, and NIS 700 thousand, NIS 699 thousand and NIS 705 thousand, respectively, by third parties.

4.8.2 As of August 2004, the Company has been renting, from a company wholly owned by the interested parties, Mr. Haim Shani and Mrs. Bareket Shani (hereinafter "**the Lessor**"), approx. 196 sq.m. on the Private Floors of Unitronics House, in accordance with terms identical to those under which areas on the Private Floors are let to third parties, and which also reflect customary terms of rental in Airport City in general. The rental is for a period of three years, with an option for the Company to extend the lease for two additional periods of 12 months each (for further details, see Section 1.12.2 above). On August 11, 2005, the Company's Audit Committee and Board of Directors resolved to approve an amendment to the aforementioned rental agreement. Pursuant to the amendment, the Company shall rent from the Lessor, as of August 1, 2005, an additional 436 sq. m. in Unitronics House (hereinafter "**the Additional Area**"). The total area rented by the Company from the Lessor is approximately 632 sq. m. The Additional Area shall be subject to the terms and conditions of the original rental agreement (for additional details about the terms and conditions of the rental agreement, see Section 1.12.2 above). The total annual rental fees payable by the Company to the Lessor for the original area plus the Additional Area (excluding management fees for Airport City and for the subsidiary) amount to approx. $95,000 (ninety five thousand US Dollars). The amendment was approved pursuant to Regulation 1(5) to the Companies Regulations (Relief in Transactions with Interested Parties) 5750-2000, following a resolution of the Company's Audit Committee and Board of Directors that the aforementioned agreement is effected at market conditions and is within the Company's ordinary course of business, and that it does not harm the Company's best interests. Among others, the Audit Committee and the Company's Board of Directors have relied on Company-conducted checks indicating that rental terms under which the additional area would be rented are similar to terms under which areas owned by the Lessor at Unitronics House are rented to third parties, which are unaffiliated with the Company or with its controlling shareholders, and also reflect rental terms (price / duration) which are prevalent at Airport City in general for areas of similar and/or inferior finish quality and which offer similar and/or inferior general services. The Company paid to the Lessor for the year 2006 in respect of leasing the aggregate premises under lease in the Private Floors of Unitronics House an aggregate amount of NIS 427 thousand. On March 25, 2007, the Company's Audit Committee and Board of Directors approved the exercise of the above option to extend the lease for an additional 12-month period (see the immediate report concerning a transaction with a controlling shareholder or director that does not require the approval of the General Meeting, dated March 26, 2007 and section 1.12.2 in this report).

On May 21, 2008, the Company's Audit Committee and Board of Directors resolved to approve the option's exercise a second time, and to extend the rental period starting August 2008, by an additional 12 months (see immediate report on a transaction with a controlling shareholder or a director that does not require the approval of the general meeting, from May 21, 2008, and also a report on an extraordinary transaction with an officer, from May 21, 2008). With the exercise of the option a second time, and after the rent was adjusted in 2006, going up by 4% as per the rent agreement terms, the rent rose again by 4%, in accordance with the rent agreement terms, standing at 13.52 dollars per square meter per month.
It should be noted that according to checks conducted by the Company and presented to the Audit Committee and the Board of Directors, it emerges that the rental terms by which the option was exercised are similar to those by which Lessor-owned areas in

Unitronics House are rented out to third parties unrelated to the Company or to the Company's controlling shareholders, and even reflect an improvement for the Company compared to the rental terms (price/duration) prevailing in Airport City in general for areas with a similar and/or inferior finish standard, offering similar and/or inferior services, and which, to the best of the Company's knowledge, are rented out as of the date of this report at prices ranging between $12 and $15.4 per square meter (excluding management fees and maintenance). In addition, among the possibilities and considerations weighed and taken into account by the Audit Committee and Board of Directors, were the issues of relocation costs and ongoing costs of operating out of different buildings.

In light of the aforesaid, the Audit Committee and Board of Directors determined in accordance with Section 1(5) of the Companies Regulations (Reliefs in Transactions with Interested Parties), 5760-2000, that the transaction is being effected in market conditions and during the ordinary course of business and does not harm the Company's best interests.

Likewise, the Audit Committee and Board of Directors estimate that the transaction does not constitute an "extraordinary transaction" as defined in the Companies Law. Nevertheless, and for the sake of caution only, the Audit Committee and the Board of Directors decided to adopt a conservative position and review once again (relative to the date of approval of the amendment to the rent agreement in August 2005, as detailed above) the approvals required for exercising the option, and to handle the transaction's approval as if it were an "extraordinary transaction," as detailed above.

4.8.3 Under an oral agreement (unlimited in duration) between the Company and Mr. Albert Sharabani (the father of Mr. Haim Shani) dating back to the time prior to the Company becoming a publicly traded company, the Company engages Mr. Albert Sharabani's services for various administrative tasks (primarily courier services by car) for a monthly fee of a non-material amount, whose cost to the Company amounted in 2008 to about NIS 38 thousand.

4.8.4 According to the decision by the Audit Committee and the Company's Board of Directors, approved by the Annual General Meeting of Company Shareholders on August 9, 2001, the Company's outside directors and directors who do not serve as officers at the Company are entitled to annual compensation and participation compensation at a rate of the "Determined Amount" as set forth in the Second and Third Schedules of the Companies Regulations (Rules Regarding Outside Directors' Compensation and Expenses), 5760-2000, and in accordance with the relevant rating of the Company's capital.

On May 21, 2008, the Company's Board of Directors and Audit Committee approved raising the annual compensation and participation compensation to NIS 25,000 and NIS 1,590, respectively, for Mr. Moshe Baraz, an outside director of the Company, and for Mr. Ron Mishael, who served at the time as an outside director of the Company, which is the "determined amount" as detailed in the second and third schedules to the Companies Regulations (Rules Regarding Outside Directors' Compensation and Expenses) (Amendment), 5768 -2008, in accordance with the relevant rating of the Company's capital. This raise came into effect starting March 2008 (the date when the amended regulations came into force).

The Board of Directors and Audit Committee determined that the aforesaid resolution is in accordance with the Companies Regulations (Rules Regarding Outside Directors'

Compensation and Expenses (Amendment), 5768-2008, which provide in Section 14 (applicability section) that the compensation may be changed in respect of outside directors who have served for five months since the publication of said amendment. The Board of Directors and the Audit Committee further determined that the decision to raise the compensation rate stemmed from the fact that Mr. Baraz and Mr. Mishael demonstrate dedication and devote their time and energy for the good of the Company, constituting a central pillar and an integral part of the Company and the reasons for its success, and the "determined amount," as amended, constitutes appropriate compensation for their work on behalf of the Company. It should be noted that on December 15, 2008, Ron Mishael ceased to serves as an outside director of the Company.

On July 1, 2008, the Board of Directors approved annual compensation and participation compensation for Mr. Yoel Sela, subject to his being appointed an outside director of the Company by the general meeting, at the rate of the "determined amount" as detailed in the second and third schedules to the Companies Regulations (Rules Regarding Outside Directors' Compensation and Expenses) (Amendment), 5768-2008, and in accordance with the relevant rating of the Company's capital, subject to his appointment as an outside director being approved by the general meeting.
On September 23, 2008, the appointment of Mr. Yoel Sela as an outside director was approved by the general meeting.

4.8.5 On May 21, 2008, the Company's Board of Directors and the Audit Committee approved raising annual compensation and participation compensation for Mr. Zvi Livne, a director of the Company, to NIS 25,000 and NIS 1,590, respectively, which is the "determined amount" as detailed in the second and third schedules to the Companies Regulations (Rules Regarding Outside Directors' Compensation and Expenses) (Amendment), 5768-2008, and in accordance with the relevant rating of the Company's capital. This raise will be effective from March 2008 (the date on which the amended regulations came into force). The Board of Directors and Audit Committee determined that the aforesaid resolution is in accordance with Section 1a of the Companies Regulations (Reliefs in Transactions with Interested Parties), 5760-2000 (hereinafter: "**the Reliefs Regulations**"), which provides that the entering of a publicly traded company into an agreement with a director as regards the conditions of employment and holding office, as these terms are defined in Section 270(3) of the Law, will not require the approval of the general meeting, if the Audit Committee and Board of Directors have confirmed that the salary paid to the director does not exceed the maximum amount under Regulations 4, 5 and 7 of the Companies Regulations (Rules Regarding Outside Directors' Compensation and Expenses), 5760-2000. The Board of Directors and Audit Committee further determined that the Company attaches great importance to Mr. Livne's ongoing contribution to the Company's success during his years in office, and views him as an important pillar in its operations, and likewise, they see in the decision to approve a raise in the rate of compensation for Mr. Livne to the "determined amount," as amended, continued implementation of past policy to pay all the Company's directors (excluding the controlling shareholders) the same compensation rate, based on the compensation paid to outside directors, and a reflection of their belief that this policy constitutes a worthy balance between the Company's ability, under certain conditions, to grant higher compensation to whomever is not an outside director, and the compensation paid to outside directors, as well as their belief that this compensation reflects appropriate compensation for Mr. Livne's vital services (for details, see immediate report on a transaction with a controlling shareholder or a director that does not require the approval of the general meeting, from May 21, 2008).

On July 3, 2007 the Annual General Meeting of Company Shareholders approved the resolution of the Company's Board of Directors dated March 25, 2007 regarding Mr. Moshe Baraz, an outside director of the Company, regarding granting him indemnification, in accordance with the indemnity provisions under the Articles of Association of the Company, the inclusion of Mr. Baraz in the directors and officers liability insurance policy of the Company, and in addition it approved the granting of annual compensation and participation compensation (for details see the amending report dated March 31, 2007 to the erroneous immediate report concerning the grant of indemnification to an officer, dated March 31, 2007, and sections 2 and 3 of the immediate report concerning the results of a general meeting, published on July 3, 2007).

On September 23, 2009, the general meeting of the Company's shareholders approved the resolutions of the Board of Directors from July 1, 2008, regarding Mr. Yoel Sela, an outside director of the Company, regarding indemnification under the indemnification provisions as prescribed in the Company's Articles of Association, the inclusion of Mr. Sela in the Company's directors and officers liability insurance policy, and also approval for granting annual compensation and participation compensation (for details, see immediate report on the results of a general meeting from September 29, 2008).

4.8.6 Further to the approval of the General Meeting of Company Shareholders, on May 18, 2006, the Company's Board of Directors allotted options for the purchase of an aggregate amount of 10,000 of the Company's Ordinary Shares to Mr. Ron Mishael, as part of his election for a second term as an outside director of the Company, under the provisions of Section 102 of the Income Tax Ordinance (New Version) and in accordance with the Company's 2003 Option Plan (for details see Section 4.10.3.c below). These options are exercisable into Company Ordinary Shares until May 2009 at an exercise price of €1.00 per share, with the remainder of the terms being essentially similar to the terms under which the options were granted to the rest of the directors of the Company, in accordance with the Company's 1999 Option Plan, subject to adjustments and amendments made to adapt them to amendments introduced in Section 102 of the Israeli Income Tax Ordinance, after the allotment of options to the rest of the Company's directors (for further details regarding the option terms see immediate report on the subject, dated December 15, 2005).

4.8.7 On April 12, 2005, the General Meeting of the Company's Shareholders approved increasing the coverage of the Officers' and Directors' Liability Insurance policy from an amount of $2,000,000 (two million US dollars) per event and in total in respect of damages that could occur during the insurance period (and a further $400,000 for legal defense costs in Israel), to an amount of US$ 5,000,000 (five million US dollars) per event and in total, in respect of damages that could occur during the insurance period (and a further US$ 1,000,000 in respect of legal defense costs in Israel). In addition, the General Meeting approved the adjustment of the Company's deductible in respect of claims filed in the USA and in Canada from an amount of $10,000 per event to an amount of US$ 50,000 per event. The extended insurance will be effective from December 1, 2004 until November 30, 2005, and retroactively from August 9, 1989. In addition, the General Meeting approved authorizing the Company's management to renew from time to time, under similar conditions, the Company's Officers' and Directors' Liability Insurance policy for additional periods of up to 18 months each time. The cost of this insurance coverage to the Company is about $8,700 (about NIS 33,000). On March 25, 2007, the Audit Committee and the Company's Board of Directors approved renewal of the policy under the terms of the framework transaction (for details, see immediate report on the subject dated March 25, 2007). On March 13,

2008, the Audit Committee and Board of Directors approved the renewal of the policy once again for a period of 12 months, in accordance with the terms of the framework transaction (for details, see immediate report on a transaction with a controlling shareholder or director that does not require the approval of the general meeting, dated March 13, 2008).

4.8.8 On April 12, 2005, the Company's General Meeting of Shareholders approved the grant of a special bonus to Mr. Haim Shani and, in addition, pursuant to the Framework Transaction, an annual bonus for each calendar year as of the year 2005 (for additional details about the bonus for the years 2006 and 2007, see Section 4.7.2. above).

4.8.9 On May 9, 2006 the Annual General Meeting of Company Shareholders approved, following approval by the Audit Committee and the Company's Board of Directors, an amendment to the chapter "Indemnity and Insurance of Office Holders" of the Company's Articles of Association (section 109 thereof) in order to allow for indemnification, insurance and exemption of office holders to the maximum degree allowed under the Companies Law (for details see section 4.17.2 below) as well as: (a) indemnification and exemption of office holders serving from time to time in the Company and/or in another Company (except for office holders who are controlling shareholders of the Company), as per the provisions of the Indemnification Document attached as Appendix B to the Report on a Transaction with a Controlling Shareholder published on March 27, 2006 (hereinafter: the "**Indemnification Document**"), and to issue the Indemnification Document to such office holders; and (b) approval of indemnification and exemption to Mr. Haim Shani and Ms. Bareket Shani, the controlling shareholder in the Company and his wife, according to the provisions of the Indemnification Document, and to issue the Indemnification Document to Mr. Haim Shani and to Ms. Bareket Shani.

Pursuant to the above decisions, the Company issued on May 18, 2006 Indemnification Documents as per the above to office holders in the Company, including to Messrs. Haim Shani and Bareket Shani, the controlling shareholder in the Company and his wife. On March 25, 2007 the Company issued a further Indemnification Document as per the above to Mr. Moshe Baraz, who began serving in office as an outside director of the Company as of December 8, 2006, and on December 3, 2008, the Company granted an additional indemnification document as aforesaid to Mr. Yoel Sela, who started to serve as an outside director on September 23, 2008.

4.9 Holders of the Corporation's Shares (Reg. 24)

Below are details, to the best of the Company's knowledge, of the shares and convertible securities of the Company, of a subsidiary and of a related company, held by each interested party of the Company as of the date of the report:

In the Company:

Name of Holder	Ordinary Shares	Warrants (Series 1)	Options (non-negotiable)	Share of issued capital	Share of votes	Share of issued capital	Share of votes
				Non-diluted		Fully diluted	
Haim Shani [3] [2] [4]	6,139,551			55.75%	59.39%	44.02%	46.89%

[2] These shares also include 50 Company shares held by Corpus Colossum Ltd., a private company registered in Israel, in which Mr. Shani holds all issued share capital and voting rights. In addition, these shares also include 50,000

Unitronics (1989) (RG) Ltd. *[6]	664,880			0	0	0	0
Ron Mishael[7]	0	0	10,000	0	0	0.05%	0.05%

* Buy-backs of Company shares (creation of Dormant Shares in the Company's share capital)

As of August 2005, the Company purchases, from time to time, Ordinary Shares of the Company within the framework of trade on the stock exchange. As of December 31, 2008, the Company holds a total of 664,880 shares purchased as aforementioned (out of 11,676,546 Ordinary Shares in the Company's issued capital). These purchases were made for a total sum of approximately NIS 2.93 million and at prices of between NIS 1.5 and NIS 5.5 per share. As long as these shares are owned by the Company, they are "dormant shares" within the meaning of this term in the Companies Law, 5759-1999. For details see section 1.4.2 above.
In addition, the Company purchased bonds from series issued to the public (for details, see Sections 1.19.4 and 1.19.5 of this report).

Company shares, which Mr. Shani made available to the market maker of the Company in Belgium as detailed in Section 4.6 above.
These shares are held by Interprofessionelle Effeotendeposito - en Girokas N.V. - Caisse Interprofessionelle de Depots et de Virements de Titres S.A. (hereinafter: "**CIK**") which is registered in the Company shareholder registry as the owner of the shares; to the best of the Company's knowledge, according to practice in Belgium and to CIK regulations, this entity serves as registry and clearing house in Belgium, with shares of companies traded on the stock exchange in Belgium deposited with it under a global power of attorney, and the various trading transactions in shares made by banks, brokers and other authorized persons on the stock exchange are recorded in its books. Thus CIK fulfills a role essentially similar to that of registry companies in Israel, facilitating recording of Company shares traded on the stock exchange in Belgium; shareholders who purchase Company shares on the stock exchange in Belgium transact the buying (or selling) via a securities account managed in their name at financial institutions (brokers, banks etc.) which are, directly or indirectly, members of the CIK system. The Company is unaware of other interested parties besides those listed above.

3 In addition to shares directly or indirectly held by him as aforesaid, Mr. Haim Shani also holds an irrevocable power of attorney (under a settlement agreement signed by him and by his brothers, Messrs. Tzadok and Alon Shani on March 18, 2002) to participate in meetings of Company shareholders and to vote on the basis of 399,999 Ordinary Shares of the Company in the name of and on behalf of his brothers, at his sole discretion, on any matter except for changes to rights associated with such shares in the Company's Articles of Association. The power of attorney shall expire in case of a decrease of 90% or more in the holdings of Messrs. Tzadok and Alon Shani in these shares and/or when Mr. Haim Shani ceases to be a controlling shareholder of the Company.

4 In addition to shares, Mr. Shani holds 200,000 warrants (Series 1) acquired via a transaction outside the stock exchange from two underwriters of the 2004 Prospectus. Furthermore, under his employment contract, Mr. Shani is entitled to additional options (see section 1.14.4a above). The granting of further options to Mr. Shani is subject to all required legal approvals, including the approval of the Tel-Aviv stock exchange for listing the shares underlying such options.

6 On January 8, 2009, the Company executed a self-purchase, with the approval of the Board of Directors, outside the Stock Exchange and not from interested parties, of 300,000 bonds (Series 1), and 7,100,000 bonds (Series 2). The purchased bonds were cancelled and delisted on January 20, 2009. (For details, see Sections 1.19.4 and 1.19.5 in this report.)

7 Mr. Ron Mishael, who serves as an outside director of the Company, holds options to purchase 10,000 Company shares under the Company's 2003 Option Plan (see section 4.10.3c below).

In subsidiaries and related companies:

None.

4.10 Registered Capital, Issued Capital and Convertible Securities (Reg. 24A)

4.10.1 Registered and Issued Capital

The Company's registered capital is NIS 2,000,000, divided into 100,000,000 Ordinary Shares with a par value of NIS 0.02 each.

The Company's issued capital is NIS 233,530.92, divided into 11,676,546 Ordinary Shares with a par value of NIS 0.02 each. The Company holds a total of 612,969 dormant shares; these dormant shares do not entitle the Company to any rights (including voting rights and/or rights to capital).

4.10.2 Convertible Securities - Overview

Company capital includes convertible securities as follows:

(a) NIS 17,200,000 par value of bonds (Series 1) listed on the Tel Aviv Stock Exchange. For details concerning the bonds' terms and the self-purchase of bonds (Series 1), see Section 1.19.4 above. For details regarding repayments of bonds (Series 1), see Section 1.4.7 above.

(b) NIS 26,900,000 par value of bonds (Series 2) listed on the Tel Aviv Stock Exchange. For details concerning the bonds' terms and the self-purchase of bonds (Series 2), see Section 1.19.5 above. The Company has not yet begun repayment of the bonds from this series.

(c) 600,000 registered warrants (Series 2), exercisable into Ordinary Shares on any trading day up to and including August 24, 2010, except on the 12^{th} to 16^{th} day of each month in said period, such that each warrant (Series 2) may be exercised into one Ordinary Share of the Company, against cash payment of the exercise price of NIS 5.00, linked to the Consumer Price Index, but no less than NIS 5.00. And 115,000 options granted under option plans, whose essential terms are detailed in Section 4.10.3 below, which are not listed on the stock exchange.

4.10.3 Convertible Securities - Option Plans

The Company has three option plans, the 1999 Plan, the 2001 Plan, and the 2003 Plan (as defined herein below), the main terms of which are as follows:

(a) 1999 Option Plan

The July 1999 Option Plan (hereinafter: the "**1999 Plan**") for employees, officers and consultants of the Company or the Company's subsidiaries, includes a framework for the purchase of 440,000 Ordinary Shares until the year 2009. The exercise price of the options under the 1999 Plan shall be no lower than the reasonable market value of the Company's shares on the date of the grant, which is defined in the Plan as the average closing price of the Company's share on the Stock Exchange on which its shares are traded in the ten days of trading preceding the grant of the option.

The options granted under the 1999 Plan may be exercised in installments during a vesting period, to be determined by the Company's Board of Directors, which is, in general, up to five years from the grant thereof. The options are not transferable, other than by a will or succession laws, and during the offeree's life, the options may be exercised by him or by his legal representative, only. The options shall expire according to the terms as shall be determined by the Company's Board of Directors and in general (in the case of employees) not later than 12 months after the termination of their employment, and in the event of death or disability, no later than three months. The 1999 Plan includes adjustment mechanisms for changes in the Company's share capital (such as the distribution of bonus shares, the division or consolidation of share capital) and also mergers, acquisitions and reorganization, pursuant to which the options would confer on the holders thereof rights to shares identical to those allotted to the Company's shareholders in the course of said events, subject to the option holders' right, in the events of reorganization, mergers and acquisitions, to exercise their options into shares on the record date of said events. In events of liquidation, the options become immediately exercisable, independent of the above vesting arrangement.

As of the date of this report, all the options granted under the 1999 Option Plan have expired.

As for options to purchase 4,750 Company shares under the 1999 Option Plan not yet granted as of the report date, and as for options that expired and/or will expire unexercised as per their terms and will become available once more for grant under the program, approval was not sought and not received from the stock exchange for listing such shares for trading. The grant of such options is subject to all required legal approvals, including approval of the Tel-Aviv Stock Exchange to list the shares underlying such options for trade.

(b) 2001 Option Plan

The May 2001 Option Plan (hereinafter: the "**2001 Plan**") for employees, officers and consultants of the Company or the Company's subsidiaries, includes a framework for the purchase of 950,000 Ordinary Shares until the year 2011. The terms of the 2001 Plan are essentially similar to the terms of the 1999 Plan. Under the 2001 Plan, options have been granted to employees, officers and consultants of the Company for the purchase of 793,499 Ordinary Shares at an exercise price ranging from €0.91 to €2.70 per share. All the options granted under this plan have expired, in accordance with their terms, without being exercised.

As for options to purchase 156,501 Company shares under the 2001 Option Plan not yet granted as of the report date, and as for options that expired and/or will expire as per their terms without being exercised and which will become available once more for grant under the program, the Company did not seek and did not receive approval from the stock exchange for listing such shares for trading. The grant of such options is subject to all required legal approvals, including approval of the Tel-Aviv Stock Exchange to list the shares underlying such options for trade.

(c) 2003 Option Plan

An Option Plan from November 2003 (hereinafter: the "**2003 Plan**"), which complies with the provisions of Section 102 in the Israeli Income Tax Ordinance (New Version), including as amended in Amendment No. 132, dated January 1, 2003 (in this section, hereinafter: the "**Ordinance**"). The 2003 Plan is intended for employees and/or the officers of the Company, the Company's subsidiaries and/or Company's parent company, who are not controlling shareholders, and includes a framework for the purchase of 1,000,000 Ordinary Shares until the year 2013. The options granted under the 2003 Plan are granted under a "**capital track**" (as defined in Section 102(b)(2) of the Ordinance), will be held in trust for at least 24 months from the tax year in which they were granted, the profit from the sale of the underlying shares will be taxed at a rate of 25% only (instead of the marginal rate of tax applicable to the offeree), and the Company will not be able to recognize the options as an expense. The exercise price of the options granted under the 2003 Plan shall be no less than the par value of the shares underlying the options. Options cancelled or not exercised within the timeframe specified for exercising them will become available once more, and may be granted anew under the plan to employees of the Company and its subsidiaries who are not interested parties in the Company by virtue of their holdings, and also, subject to approval of the Tel Aviv Stock Exchange to list them for trading, also to other offerees under this plan who are not such employees. The other terms of the 2003 Plan are essentially similar to the terms of the 1999 Plan.

As of the report date, options under the 2003 Plan to purchase 607,000 Ordinary Shares have been granted to employees who are not interested parties, of which options to purchase 387,000 shares have expired unexercised as per their terms, by the report date. Unexpired options are exercisable into Company Ordinary Shares until January 2010, at an exercise price of €1.30 per share, subject to a 4-year vesting schedule (one third of options vesting after 2, 3 and 4 years from the date of grant, respectively).

Out of the above 387,000 expired options, options to purchase 10,000 Ordinary Shares were granted in May 2006 to Mr. Ron Mishael who served at the time as an outside director of the Company (for details see Section 4.8.6 above). These options are exercisable into Company Ordinary Shares until May 2009, at an exercise price of €1.00 per share, without any vesting period. Likewise, out of the aforementioned expired options, options to purchase 210,000 Ordinary Shares were allotted in April 2007 to a former employee of the Company (for details see section 4.17.9 below). Out of these 210,000, 105,000 options are exercisable into Company Ordinary Shares until August 2010, and the remaining 105,000 options are exercisable into Company Ordinary Shares until August 2011, at an exercise price of €1.30 per share, all subject to the vesting periods.

The remaining options to purchase 498,000 shares grantable, as of the report date, under the 2003 Option Plan and exercisable into 498,000 shares have been transferred to a trustee on behalf of the Company, and are intended to be granted from time to time to employees who are not interested parties, by virtue of their holdings alone, in the Company and/or its subsidiaries, as per instructions of the Company’s Board of Directors who will also be authorized to determine and

change at the time of each grant: the exercise price, vesting period, exercise period and other terms of the option applying to all options granted as aforementioned (see additional details in Section 4.10.4 below).

4.10.4 Convertible Securities - Summary of Data

Below is a summary of the particulars of convertible securities in the Company's capital as of the date of the report:

Type of convertible security / option plan	Framework of Ordinary Shares, NIS 0.02 par value each, that was reserved for issuance / conversion	Amount of shares underlying the securities allotted/ actually granted by report date	Date of allotment / issuance	Total shares underlying expired / paid-up securities by report date	Total shares receivable in the future for exercising options actually allotted / granted as of the report date (vested / non-vested)	Amount of shares vested / converted as of the report date	Exercise price / conversion ratio	Expiration Date
Bonds (Series 1)[8]	3,888,889	0	19.5.04	1,944,444		1,944,444	9 bonds per share	9.5.2010
Warrants (Series 2)[9]	600,000	0	27.8.06			600,000	NIS 5.00	28.8.2010
1999 Plan[10]	440,000	288,000	2.12.99	288,000	0	0	€3.80	2.12.04
		35,000	1.7.02	35,000	0	0	€0.82	30.6.07
		62,250	31.10.00	62,250	0	0	€1.00	31.10.05
		50,000	1.7.02	50,000	0	0	€1.00	30.6.07
2001 Plan[11]	950,000	376,500	28.6.01	376,500	0	0	€2.70	28.6.06
		39,999	11.3.01	39,999	0	0	€4.73	11.3.06
		15,000	11.3.01	15,000	0	0	€4.75	11.3.06
		362,000	1.7.02	314,000	0	0	€0.91	30.6.07
2003 Plan[12]	1,000,000	387,000	22.1.04	387,000	0	0	[13]€1.30	22.1.09
		105,000	22.1.04	105,000	0	0	[14]€1.30	21.1.10
		10,000	18.6.06	0	10,000	10,000	[15]€1.00	31.5.09
		105,000	10.6.07	0	105,000	105,000	€1.30	31.8.11
		105,000	10.6.07	0	105,000	105,000	€1.30	31.8.12
		[16] 498,000				0	-	-
Total	6,878,889	2,438,749		2,542,747	432,000	5,293,453		

4.11 Corporation's Directors (Reg. 26)

Details of directors: Below are details with regard to each of the directors of the Company, according to the following subsections: (1) the name of the director; 1(a) his ID number; (2) his date of birth; (3) his address for service of process; (4) his citizenship; (5) his membership in a committee or committees of the Board of Directors; (6) is he an outside director as defined in the Companies Law - yes/no, and does he have accounting and

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8 For details see section 1.19.4 above.

9 For details see section 4.10.2 above.

10 For details see section 4.10.3a above.

11 For details see section 4.10.3b above.

12 For details see section 4.10.3c above.

13 The economic value of the option as of the grant date is approximately €0.383. Despite the fact that these options were granted prior to the 2004 Prospectus and due to difficulty in obtaining appropriate data from the stock exchange in Belgium, the economic value of the option was calculated using the Black& Scholes formula, based on a discount rate and standard deviation as per data from the Tel Aviv Stock Exchange, as follows: discount rate of 3% (discount rate for the Euro) and weekly standard deviation of 3.8%. These are indicative values only, due to use of data from the stock exchange in Israel (rather than data of the stock exchange in Belgium as set forth above); the total beneficial value of the options granted on the above date is €148,221.

14 The economic value of the option as of the grant date is approximately €0.425 (based on data from the Tel Aviv Stock Exchange as set forth above). The total beneficial value of the options granted on the above date is €44,625.

15 The economic value of the option as of the grant date is approximately €0.061 (based on data from the Tel Aviv Stock Exchange as set forth above). The total beneficial value of the options granted on the above date is €610.

16 Options under the 2003 Option Plan transferred to trustee as stated in section 4.10.3c above.

financial skills or professional qualifications; (7) is he an employee of the Company, of its subsidiary, of a related company or of an interested party in the Company - the position or positions which he holds therein; (8) the date on which he assumed office as a Company director; (9) his education and his employment in the last five years, detailing the profession or subject in which the education was acquired, the institution in which it was acquired, and the academic title or professional diploma he holds, and details of the corporations in which he serves as a director; (10) is he, to the best of the Company's knowledge, and its other directors, a relative of another interested party in the Company - yes/ no, and details; (11) is he considered by the Company as having accounting and financial expertise required for conforming to the minimal number determined by the Company's Board of Directors pursuant to Section 92(a)(12) of the Companies Law - yes/ no.

(a) (1) Haim Shani; (1a) 056548142; (2) July 31, 1960; (3) 20 Bazelet Street, Shoham; (4) Israeli; (5) Chairman of the Board of Directors of the Company and a member of the Securities Committee[17]; (6) No; has professional qualifications; (7) Yes, CEO of the Company, a director and the senior officer of Unitronics House Management and Maintenance (2003) Ltd., director and president of Unitronics Inc.; (8) August 20, 1989; (9) High-school; serves as a director of Cardiosense Ltd., Corpus Colossum Ltd., Netrix Ltd.; (10) Yes, the husband of Mrs. Bareket Shani, a director and officer of the Company (see details hereinbelow); (11) No.

(b) (1) Bareket Shani; (1a) 058136631; (2) June 30, 1963; (3) 20 Bazelet Street, Shoham; (4) Israeli; (5) Director and a member of the Securities Committee and of the Credit and Investments Committee; (6) No, has professional qualifications; (7) Yes, Deputy CEO and Human Resources Manager, a director of Unitronics House Management and Maintenance (2003) Ltd.; (8) July 6, 1999; (9) Academic, B.A in management and industrial engineering from the Technion - Israel Institute of Technology ; (10) Yes, the wife of Mr. Haim Shani, Chairman of the Board of Directors and CEO of the Company; (11) No.

(c) (1) Zvi Livne; (1a) 010025658; (2) July 22, 1947; (3) 20 Yohanan Hasandlar Street, Haifa; (4) Israeli; (5) Director, member of the Audit Committee, director with accounting skills; (6) No, has accounting and financial skills as well as professional qualifications; (7) Yes, a director of Unitronics House Management and Maintenance (2003) Ltd.; (8) July 8, 1999; (9) Academic, B.A in economics and accounting from Tel-Aviv University, M.B.A from Tel-Aviv University, holds an accountant diploma; serves as a financial and commercial advisor to a number of Israeli companies; senior partner at the accounting firm, Schiffer, Fogel & Livne, CPA; (10) No; (11) Yes.

(d) (1)Moshe Baraz; (1a) 058263476; (2) August 2, 1963; (3) 73 Adulam Street, Shoham; (4) Israeli; (5) Director, Audit Committee member and Securities Committee member, has accounting and financial skills as well as professional qualifications; (6) Yes, has accounting and financial skills as well as professional qualifications; (7) No; (8) December 8, 2006; (9) Academic - B.Ed. from the College of Management. Served as VP, Finance at advertising firm Tamir Cohen Ltd. between 1999 and 2004. Serves as VP and CFO at Kfar HaMaccabiah since 2004; serves as director of Dagan Management and Holdings Ltd.; (10) No; (11) No.

[17] In connection with this matter see Section 4.16.7 below.

(e) (1) Yoel Sela; (1a) 0515621552; (2) April 21, 1953; (3) 66 Nurit St., Shoham; (4) Israeli; (5) Director, member of Audit Committee and Investments Committee, has accounting and financial skills as well as professional qualifications; (6) , has accounting and financial skills as well as professional qualifications; (7) No; (8) September 23, 2008; (9) Academic. B.A. in economics and accounting from Tel Aviv University. CEO of Net Intent Ltd. from February 2001. Many years of experience as CFO and CEO of companies in diverse fields; (10) No; (11) Yes.

4.11.1 Directors with Accounting Skills: At the meeting of the Company's Board of Directors held on March 18, 2004, the Company's Board of Directors determined that the appropriate minimum number of directors of the Company with accounting and financial skills, taking into consideration, among other things, the size of the Company, the type of its operations, its complexity, etc., would be one director, so long as the Company's Board of Directors comprises up to six members. In actual fact, three directors with accounting and financial skills out of five members of the Board of Directors serve at the Company, namely Messrs. Zvi Livne (who is a CPA by training and by profession today), Mr. Moshe Baraz (who is a CPA by training and serves as VP Finance and CFO), and Mr. Yoel Sela (who holds an academic. B.A. in economics and accounting and serves as CEO).

4.12 Senior Officers (Reg. 26A)

Below are details with regard to each of the senior officers of the Company, whose details were not set forth in Section 4.11 hereinabove, according to the following subsections: (1) the name of the officer; 1(a) his ID number; (2) his date of birth; (2a) the date on which he assumed office; (3) the position he holds at the Company, at a subsidiary, at a related company or at an interested party in the Company; (4) is he a relative of another senior officer or of interested party in the Company - yes/no (5) his education and business experience in the last five years, specifying the profession or subject in which the education was acquired, the institution in which it was acquired and the academic title or professional diploma which he holds.

(a) (1) Eyal Saban; (1a) 058138710; (2) July 21, 1963; (2a) January 1, 2000; (3) Chief Technology Officer (CTO); (4) No; (5) High school graduate and graduate of IDF MAMRAM training school; since 1995 has been serving as the manager of Netium Ltd.; serves as a director and CEO of Netium Ltd.

(b) (1) Yair Itscovich; (1a) 058858176; (2) December 9, 1964; (2a) January 1, 1999; (3) Chief Financial Officer (CFO); (4) No; (5) High-school education and Level III Bookkeeping from the Ministry of Labor.

(c) (1) Alon Kedar; (1a) 057410102; (2) December 4, 1961; (2a) June 1, 1999; (3) Deputy CEO and General Manager of the Products Division; (4) No; (5) Academic, B.A in economics and management from Bar-Ilan University, M.B.A in marketing and financing from Bar-Ilan University. Before joining the Company, he served as the Marketing Manager of Zag Industries Ltd.

(d) (1) Eyal Horovitz; (1a) 058876574; (2) June 5, 1964; (2a) June 18, 2000; (3) Internal auditor of the Company; (4) No; (5) Academic, certified public accountant, jurist, senior lecturer at the College of Management, participates in professional and public committees, a member of the Committee of Auditing Standards and Auditing Procedures of the Institute of Certified Public Accountants in Israel. Member of the Board of Directors and of the Europe, Middle East and Africa Committee of Baker Tilly International, an international network of accountants. Participated in

conferences and international committees in Munich, in October 2003, in Brussels, in May 2004, and at the North American Congress, in May 2004.

4.13 Authorized Signatories (Reg. 26b)

On January 15, 2008, the Company's Board of Directors determined, in accordance with a directive from the Securities Authority from January 3, 2008 regarding disclosure of authorized signatories in a corporation, that authorized signatories in the name of the Company will be as follows:

a. The signature of Mr. Haim Shani and Ms. Bareket Shani, each separately, together with the Company stamp or its printed name, will bind the Company in all respects and for any amount, without any limit, including on cashable instruments.
b. The signature of Mr. Yair Itzkovitz together with the Company stamp or its printed name will bind the Company up to an amount equal to 5% of total assets on the Company's balance sheet, in any matter relating only to National Insurance forms, Income Tax and VAT, documents of engagement with cellular companies and engagement documents pertaining to the leasing of motor vehicles, but excluding the use of cashable instruments, which Mr. Itzkovitz is not empowered to sign, including in connection with the aforesaid.
c. The signature of Mr. Alon Kedar, together with the Company stamp or its printed name, will bind the Company up to an amount equal to 5% of total assets in the corporate balance sheet, in respect of any matter relating only to contracts for the distribution and/or sale of the Company's products and services, but excluding the use of cashable instruments, which Mr. Kedar is not empowered to sign, including in connection with the aforesaid.
d. The signature of Mr. Haim Shani, Ms. Bareket Shani, Mr. Yair Itzkovitz and Mr. Eyal Saban, each separately, together with the Company stamp or its printed name, will bind the Company in any matter pertaining to the publication of reports, to which the Company is committed by law.
e. For the purpose of the above resolutions, it was determined that the term "total assets on the balance sheet" will refer to total assets on the Company's balance sheet as stated in the most recent audited, consolidated financial statements.

(For details, see immediate report regarding the signatory rights at the Company, dated January 16, 2008.)

4.14 Corporation's CPA (Reg. 27)

Amit Halfon, CPA - 16 Abba Hillel Street, Ramat Gan.

4.15 Modification of the Articles or Memorandum of Association (Reg. 28)

In the reported year no modifications were made to the Company’s Articles or Memorandum of Association.

4.16 Recommendations and Resolutions of the Directors and Resolutions of the Extraordinary General Meeting (Reg. 29)

On May 21, 2008, the Company's Board of Directors decided to convene a general meeting of the Company's shareholders so, that it should approve the reappointment of Mr. Haim Shani and Ms. Bareket Shani as directors of the Company for an additional term.

On July 1, 2008, the Company's Board of Directors decided to convene a general meeting of the Company's shareholders, so that it should approve the appointment of Mr. Yoel Sela as an outside director of the Company.

On September 23, 2008 the general meeting of the Company's shareholders approved the appointment of Mr. Haim Shani, Ms. Bareket Shani and Mr. Yoel Sela as aforesaid.

On January 8, 2008, the Company's Board of Directors decided to approve a buyback outside the stock exchange and not from interested parties, of 300,000 bonds (Series 1) at the price of 9,065 agorot, for NIS 272,000, and also 7,100,000 bonds (Series 2) at the price of 7,445 agorot, for NIS 5,286 thousand. The purchased bonds were cancelled and delisted on January 20, 2009. (For details, see Sections 1.19.4 and 1.19.5 of this report.)

4.17 The Company's Resolutions (Reg. 29 A)

Below are details of the Company's resolutions with regard to the approval of acts pursuant to Section 255 and 254 (a) of the Companies Law, Extraordinary Transactions pursuant to Section 271 (1) and exemption, insurance and undertaking to indemnify officers, in effect as at the date of the report:

4.17.1 Indemnity: The Company's Board of Directors resolved, on March 18, 2004 (and the resolution was approved by the General Meeting of the Company's Shareholders of April 13, 2004) to undertake toward the officers of the Company that the Company would indemnify them, in advance, in the events set forth hereunder, in an amount that will not exceed 25% of the Company's shareholders' equity, as recorded in its financial statements on the date of the indemnification, with regard to all the officers. This amount will be added to the amount of all insurance benefits in respect of the types of determining events, which the Company will receive from time to time under any officers' liability insurance. The determining events are:

1. Acts in connection with investments (including investments that were not actually implemented) made by the Company, a subsidiary or a related company (as defined in the Securities Law) in various corporations, whether prior to or after effecting the investment, including the engagement in the transaction, the execution of the transaction, the follow-up and supervision of the investment after it was made, and any act performed by an officer in connection therewith.

2. The issuance of securities (including an issuance of securities that was not actually implemented), including, but without derogating from the generality of the foregoing, the offering of the securities to the public pursuant to a prospectus, a private placement, or the offering of securities in any other manner.

3. A transaction as defined in Section 1 to the Companies Law, including the receipt of credit, a sale or purchase of assets or liabilities, including securities or the grant or receipt of a right in any of them, and any action entailed, whether directly or indirectly, in such a transaction.

4. A report or notice filed pursuant to the Companies Law or the Securities Law or any other law applicable to the Company, including the regulations enacted pursuant thereto, or pursuant to laws and regulations addressing similar subjects outside of Israel, or pursuant to rules or directives which are customarily

practiced on the Stock Exchange or in the commercial arena in Israel or outside Israel, and all including non-submission of such a report or notice.

5. Acts in connection with the terms of employment of employees, including the handling of pension funds, provident funds, insurance funds and savings funds, options, and other benefits to employees, of any kind or nature.

6. Any act that caused bodily injury, disease, death, property damage, including loss of use of property.

7. Any act that gave rise to a failure to secure appropriate insurance arrangements.

8. A change to the Company's structure or reorganization or any decision in connection therewith, including, without derogating from the generality of the foregoing, a merger, spin-off, change in the capital of the Company, subsidiaries or related companies, the dissolution or sale thereof, the allotment of any kind of security of the Company, a subsidiary or a related company, or the implementation of a distribution (as defined in the Companies Law) or a purchase offer by or in connection with any of the above.

9. An expression, statement, including the expression of an opinion or position that was made in good faith by the officer in the course of and by virtue of his duty, and including in the course of the meetings of the General Meeting or Board of Directors of the Company, a subsidiary or a related company, or any of the committees of the Board of Directors.

10. Civil or criminal actions relating to the ordinary and on-going course of the Company's business, and also to extraordinary transactions of the Company.

11. Actions that were filed against an officer in connection with the dissolution or receivership of the Company, a subsidiary or a related company.

12. Derivative actions or class actions in connection with the Company, a subsidiary or a related company.

13. Actions in connection with merger, spin-off, or reorganization proceedings, etc.

14. Acts or decisions in connection with the preparation or approval of financial statements, business plans or forecasts in connection with the Company, a subsidiary or a related company.

15. Actions in connection with documents relating to the matters indicated above or in connection with acts or resolutions relating to the matters indicated above, or in connection with representations and undertakings that were given in connection with the matters indicated above, including such representations and undertakings that were given to third parties or to the Company, a subsidiary or a related company, or to any party on its behalf (including to its consultants, such as accountants, attorneys, etc.).

16. Any act or omission committed by the officer in the past, in his capacity as an officer of the Company, in respect of which he may be lawfully indemnified.

With regard to the events indicated above:

The "**Securities Law**" - The Israeli Securities Law, 5728-1968.
The "**Companies Law**" - The Israeli Companies Law, 5759-1999.
"**Security**" - as defined in Section 1 of the Companies Law.

4.17.2 On May 9, 2006 the General Meeting of Company Shareholders approved, further to the approval by the Audit Committee and the Company's Board of Directors on March 27, 2006, to amend the provisions of the Company's Articles of Association with regard to exemption, insurance and indemnification of office holders in order to align them with provisions of Amendment no. 3 (dated March 17, 2005) of the Companies Law, 5759-1999; and to approve indemnification and exemption and the grant of letters of undertaking to the officers of the Company as shall be from time to time and/or officers serving on behalf of the Company in other companies, as well as to Mr. Haim Shani and Mrs. Bareket Shani, the controlling shareholder of the Company and his wife, who also serve as officers of the Company (for details see immediate report on the results of the Company's general meeting of shareholders to approve a transaction with a controlling shareholder from May 9, 2006). On September 23, the general meeting of the Company's shareholders approved the Board of Directors' resolutions from July 1, 2008 regarding Mr. Yoel Sela, an outside director of the Company, in the matter of granting indemnification as per the indemnification provisions prescribed in the Company's Articles of Association (for details, see Section 4.17.11 below).

4.17.3 Transaction with an interested party: As of August 2004, the Company rents office space from a company controlled by Mr. Haim Shani. In August 2005, the Company's Audit Committee and Board of Directors approved an amendment to the lease agreement, whereby the Company will rent additional areas from the Lessor. Likewise, in the years 2007 and 2008, the Company exercised options to extend the rent agreements, each time by a further 12 months. (For details regarding the rent agreement, its terms and amendment, as well as the exercise of options, see Section 4.8.2 above.)

4.17.4 Insurance: The Company's Board of Directors resolved, on March 18, 2004 (and the resolution was approved by the General Meeting of the Company's Shareholders of April 13, 2004) to renew, from time to time, under similar conditions, the Company's Officers and Directors Liability Insurance policy (the Company's officers are insured against claims in respect of officers' liability up to an amount of US$ 2,000,000 per event and in total, in respect of damages that could occur during the period of the insurance, and a further US$ 400,000 in respect of legal defense costs in Israel. The basic coverage was extended to jurisdiction around the world, including the USA and Canada. The deductible applies only to the Company and not to the officer or director. The amount of the deductible, in respect of claims filed anywhere, is US$ 10,000), for additional periods of up to 18 months each time.

On January 26, 2005, the Company's Audit Committee and the Board of Directors resolved, in the course of a comprehensive review of the Company's insurance coverage in the various fields, to increase the aforementioned insurance coverage to an amount of US$ 5,000,000 (five million US dollars) per event and in total, in respect of damages that could occur during the period of insurance (and a further US$ 1,000,000 in respect of legal defense costs in Israel), and to increase the Company's deductible in respect of claims filed in the USA and in Canada to an amount of US$ 50,000 per event. The extended insurance will be effective from December 1, 2004 until November 30, 2005, and retroactively from August 9, 1989, all subject to the approval of the General Meeting of the Company's Shareholders, in accordance with Section 273 of the

Companies Law, 5759-1999. In addition, it was resolved to authorize the Company's management to renew from time to time, under similar conditions, the Company's Officers and Directors Liability Insurance policy for additional periods of up to 18 months each time.

On April 12, 2005, the General Meeting of the Company's Shareholders resolved to increase the coverage of the Officers and Directors Liability Insurance policy from an amount of $2,000,000 (two million US Dollars) per event and in total, in respect of damages that could occur during the period of the insurance (and further $400,000 for legal defense costs in Israel), to an amount of US$ 5,000,000 (five million US dollars) per event and in total, in respect of damages that could occur during the period of the insurance (and a further US$ 1,000,000 in respect of legal defense costs in Israel). In addition, the General Meeting resolved to adjust the Company's deductible in respect of claims filed in the USA and in Canada from an amount of $10,000 per event to an amount of US$ 50,000 per event. The extended insurance will be effective from December 1, 2004 until November 30, 2005, and retroactively from August 9, 1989. In addition, the General Meeting resolved to authorize the Company's management to renew from time to time, under similar conditions, the Company's Officers and Directors Liability Insurance policy for additional periods of up to 18 months each time. Said renewals were approved by the Audit Committee and the Company's Board of Directors for the years 2007 and 2008 (for details, see Section 4.8.7 above).

4.17.5 Transaction with an office holder: granting of a Special Bonus to Mr. Haim Shani, controlling shareholder in the Company, Chairman of the Board of Directors and CEO of the Company, in consideration for his contribution to the successful activities of the Company in the few years prior to 2004 in general, and in 2004 in particular, and for the Company registering a net profit in said year (for details about the amount of the bonus for the years 2006 and 2007, see Section 4.7.2 above).

4.17.6 Transaction with an office holder: On May 9, 2006 the General Meeting of Company Shareholders resolved to ratify the decision by the General Meeting of Company Shareholders on December 15, 2005, to grant options to purchase 10,000 Company Ordinary Shares to Mr. Ron Mishael, who serves as an outside director of the Company (for details see immediate report dated May 9, 2006).

4.17.7 Transaction with an office holder: On April 13, 2007, the CEO of the Company, Mr. Haim Shani, ceased to serve as Chairman of the Board of Directors (for details see Immediate Report on senior officer who ceased to hold office, dated April 15, 2007), and Mrs. Bareket Shani, who was serving as director and officer of the Company, was appointed at that time to serve as Chairman of the Board of Directors. Mrs Shani is the wife of Mr. Haim Shani (for details see immediate report on the appointment of a senior officer, published on April 15, 2007). On July 3, 2007, Mrs. Bareket Shani ceased to serve as Chairman of the Board of Directors (for details see immediate report concerning a senior officer who ceased to hold office, dated July 3, 2007), and Mr. Haim Shani, who was serving as CEO of the Company, was appointed on that day to be Chairman of the Board of Directors as well, for a term of three years (for details, see immediate report concerning the appointment of a director (that is not a corporation) or an individual serving on behalf of a corporation that is a director, dated July 3, 2007). This resolution was approved by the General Meeting of Company Shareholders on July 3, 2007 (for details see section 1 of the immediate report on results of an annual general meeting of the Company's shareholders published on July 3, 2007).

4.17.8 Transaction with an office holder – On May 21, 2008, the Audit Committee and Board of Directors resolved to approve the extension of each of the employment agreements with Mr. Haim Shani and Ms. Bareket Shani, including the amendments specified above, by five additional years, effective from January 2009, under the same terms (for details, see Section 4.7.2 above and an immediate report on a transaction with a controlling shareholder or a director that does not require the approval of the general meeting, dated May 21, 2008).

4.17.9 On April 12, 2007 the Company's Board of Directors approved a private allotment of non-negotiable options to a former employee of the Company. The private allotment was a "private offering, which is neither material nor exceptional" within the meaning of these terms in Regulation 1 of the Securities Regulations (Private Offering of Securities in a Registered Company), 5760-2000. (For details see immediate report from April 15, 2007 concerning a private offering which is neither material nor exceptional, an immediate report from April 29, 2007 including the Stock Exchange's letter concerning the approval, and an amending report from June 19, 2007 amending the periods of exercise of the options that were published in the aforesaid report from April 15).

4.17.10 Transaction with an office holder: The Annual General Meeting of the Company's Shareholders, held on July 3, 2007, approved the resolutions of the Company's Board of Directors from March 25, 2007, regarding Mr. Moshe Baraz, an outside director of the Company, in connection with granting him indemnification, in accordance with the indemnification provisions under the Company's Articles of Association, regarding the inclusion of Mr. Baraz in directors and officers liability insurance policy of the Company, and also regarding the approval of the granting of annual compensation and participation compensation (for details, see the amending report dated March 31, 2007 to the immediate report concerning the grant of indemnification to an officer, dated March 31, 2007, and sections 2 and 3 of the immediate report on results of the general meeting, published on July 3, 2007).

4.17.11 Transaction with an office holder: A general meeting of shareholders held on September 23, 2008, approved the Board of Directors' resolutions from July 1, 2008 concerning Mr. Yoel Sela, an outside director of the Company, regarding the grant of indemnification as per the indemnification provisions prescribed in the Company's Articles of Association, Mr. Sela's inclusion in the Directors and Officers Liability Insurance policy, and approval for granting annual compensation and participation compensation (for details, see immediate report on the granting of indemnification to an officer, from September 24, 2008 and an immediate report on the results of a meeting, published on September 24, 2008).

4.17.12 Transaction with an office holder: On May 21, 2008, the Company's Board of Directors and Audit Committee approved increasing the annual compensation and participation compensation to NIS 25,000 and NIS 1,590, respectively, for Mr. Moshe Baraz, an outside director of the Company, and for Mr. Ron Mishael, who served at the time as an outside director of the Company (for details, see Section 4.8.3 above).

4.17.13 Transaction with an office holder: On May 21, 2008, the Company's Board of Directors and Audit Committee approved increasing the annual compensation and participation compensation to NIS 25,000 and NIS 1,590, respectively, for Mr. Zvi Livne, a director of the Company (for details, see Section 4.8.5 above).

March 30, 2009

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Unitronics (1989) (R"G) Ltd.

By:

Mr. Haim Shani, CEO and Chairman of the Board of Directors

Zvi Livne, Director