Unitronics (1989)(R"G) LTD.

2009 – Periodic and Annual Report

Table of Contents

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 realization of which is uncertain and not solely under the Company's control, if at all. This information is identified as such where it is used in this report. Although this information is based on data available in 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 from it as projected or anticipated, since their realization is affected, *inter alia*, by 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 performing automatic actions, such as production systems and automatic systems for industrial storage, retrieval and logistics. The Company also provides design, construction and maintenance services within the framework of projects for the automation, computerization and integration of computerized production and/or logistics systems, mainly automated warehouses and distribution centers as well as automated parking systems.

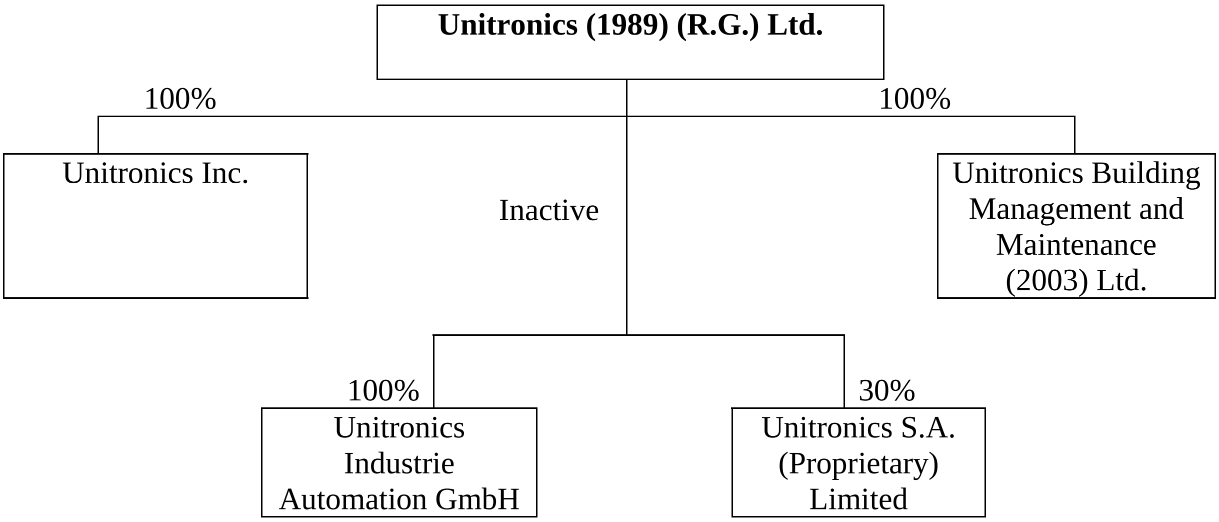
The Company was incorporated in August 1989 as a private company according to the Israeli Companies Ordinance (New Version), 5743-1983 (hereinafter: the **"Companies Ordinance"**), and since then has been primarily engaged in the field of PLCs and in projects involving automation, computerization and integration of computerized production and/or logistics systems and automated parking.. In July 1999 the Company became a public company as defined in the Companies Ordinance. In September 1999 the Company first published a prospectus offering its shares to the public in Belgium, subsequent to which its shares were listed for trading on the Euro.NM Belgium stock exchange in Belgium. In 2000, following the establishment of the EuroNext stock exchange in Belgium, trading of the Company's shares was moved to this stock exchange. In May 2004 the Company published a prospectus in Israel according to which shares, convertible bonds (Series 1) and warrants (Series 1) (which expired on May 2008) of the Company were listed for trading on the Tel Aviv Stock Exchange (hereinafter: the **"2004 Prospectus"**). In August 2006 the Company published a prospectus in Israel according to which bonds (Series 2) and warrants (Series 2) of the Company were listed for trading on the Tel Aviv Stock Exchange (hereinafter: the **"2006 Prospectus"**).

The Company operates from facilities comprising approximately 2,536 square meters in the "**Unitronics Building**", an office and industry building situated in Airport City near the David Ben Gurion Airport, where the Company leases approximately 1,600 square meters from the Israel Lands Administration since August 2000 and rents approximately 936 square meters from a controlling shareholder (see Section 1.12 in this report).

1.2 Subsidiaries and holding structure diagram

The Company has two wholly owned active subsidiaries: Unitronics Inc., which is incorporated in the United States (Delaware) and engages primarily in coordinating the Company's marketing and distribution operations in the United States, and Unitronics Building Management & Maintenance (2003) Ltd., which is primarily engaged in the management and maintenance of the Unitronics Building (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 activity of the Company products in those countries. These companies have been inactive for a number of years (the German subsidiary since 1997 and the South African subsidiary since 2000) and since then have had no assets, employees or liabilities.

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



1.3 Fields of Activity

The Company has two major fields of activity, handled by two business departments, the Products Department and the Systems Department. In addition, the Company engages in the management and maintenance of the Unitronics Building through a subsidiary.

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

Systems field: 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 Bonds (Series 5/04) – 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 approximately € 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 approximately 17.5% of the Company's issued and paid up share capital following the conversion. After the said issue and conversion, the balance of the bond principal (in the sum of approximately € 750,000) remained 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 and including February 2006), 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; (d) Listing the conversion shares for trading on the stock exchange in Belgium, which was already performed.

On August 5, 2008, the Company paid 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), reference number 2008-01-228063). 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 functioning, commencing on August 2005 the Company, from time to time, purchased 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 approximately NIS 2,000,000, on similar terms and at a price not exceeding NIS 6.50 per share.

On December 7, 2009, the Company's Board of Directors approved the adoption of a plan for an additional self purchase of the Company's shares, within which the Company was allowed to purchase, from time to time, within the trading of the stock exchange or directly from unrelated parties, Company shares not exceeding the amount of NIS 1.75 million (including expenses related to the realization of the acquisition, including consultants' and service providers' fees regarding the acquisition). This approval is valid up to March 21, 2010 (for details see immediate report about an event or matter deviating from the Company's business of December 7, 2009, reference number 2009-01-312105).

Up to December 31, 2009, the Company held a total of 753,091 shares that were purchased as stated (out of an existing 11,676,546 Ordinary Shares in the Company's issued capital). These acquisitions were executed for a total sum of approximately NIS 3.15 million and at prices of between NIS 0.3 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 326,732 additional shares were purchased by the Company for a total sum of approximately NIS 1,130 thousand and at an average price of NIS 3.5 per share. The Company holds a total of 1,079,823 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).

On March 4, 2010, the Company's Board of Directors approved the adoption of a new plan for an additional self purchase of the Company's shares. The plan replaces the previous plan and therefore the unexercised balance of the previous plan expired. Within the new plan the Company was allowed to purchase, from time to time, within the trading of the stock exchange or directly from unrelated parties, Company shares not exceeding the amount of NIS 1.5 million (including expenses related to the realization of the acquisition, including consultants' and service providers' fees regarding the acquisition). Implementation of the Plan is intended to commence on the date of publication of the Company's financial statements for the year 2009, and such authorization shall be in effect until June 30th, 2010 (for details see Section 4.16.5 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**"), according to which Harel is to act as market maker for the Company's shares in accordance with the Stock Exchange Regulations and in accordance with the instructions and decisions of the 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 approximately 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 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 – reference number 2007-01-388592, an immediate report that includes the 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 – reference number 2007-01-431957).

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 third payment of bonds (Series 1) on May 23, 2009 and expiration of the warrants (Series 1) on May 25, 2008, Mr. Shani's holdings were: 55.75% of the share capital and 59.39% of the voting rights (and on a fully diluted basis: 48.01% of the share capital and 51.14% of the voting rights (for details see immediate report concerning the status of holdings of interested parties and senior officers published on May 24, 2009 – reference number 2009-01-118542). 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 rate stands at: 57.94% of the share capital and 57.94% of the voting rights (and on a fully diluted basis: 49.66% of the share capital and 49.66% of the voting rights). (For details, see immediate report concerning the status of holdings of interested parties published on February 11, 2010, reference number 2010-01-381603).

1.4.7 On May 25, 2008 the Company's warrants (Series 1), allocated according to the Prospectus published on May 12, 2004 ("2004 Prospectus"), expired. (For details see amending report regarding payment of bonds and expiry of options from May 26, 2008, reference number 2008-01-143631).

On May 24, 2009, the Company executed the third payment of principal and interest in respect of the bonds (Series 1) allotted by the Company in 2004, according to the 2004 Prospectus. (For details see immediate report on payment of bond principal (Series 1) of May 24, 2009).

Following these payments, bonds (Series 1) remained in circulation, convertible to 955,556 Company shares, in accordance with the terms of those same bonds, payable in May 2010.
In addition, on November 23, 2009, the Company paid interest for these bonds. (For details regarding payment of interest for these bonds, and payment of interest differences the Company saw fit to perform regarding these bonds, see Section 1.19.4 below).

1.4.8 On May 31, 2009, 10,000 Company employees' options expired (Unitronics 5/04 – employee options). (For details see immediate report regarding change in the Company's issued capital of May 31, 2009, reference number 2009-01-127875).

1.5 Dividend Distribution

The Company has not distributed dividends since it was established. The Company will examine the possibility of distributing dividends from time to time, and shall act according to the profitability data and the expected cash flow.

The balance of the distributable equity as of December 31, 2009 was NIS 5,288 thousand. The balance of the distributable equity close to the date of the publishing of the report (as of February 24, 2010) is NIS 4,114 thousand.

Part II – Other Information

1.6 Financial information on the Company's fields of activity

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

	For the year ended December 31		
	2009	2008	2007
	NIS thousands		
Revenues:			
Products	57,496	64,418	60,041
Systems	26,133	141,5973	41,528
Unitronics Building	489	705	699
Total Revenues*	84,118	79,720	102,268
Sector Costs			
Products – fixed**	9,544	11,158	11,673
Products – variable*	25,623	30,012	31,526
Systems – fixed**	8,234	8,971	11,918
Systems – variable**	17,870	12,223	28,527
Unitronics Building – fixed**	0	0	0
Unitronics Building – variable***	712	716	808
Total****	61,983	63,980	84,537
Sector Results			
Products	22,329	22,348	16,842
Systems	29	(6,597)	1,083
Other	(223)	(11)	(109)
Total	22,135	15,740	17,816
Non-attributed expenses	(11,964)	(8,943)	(8,203)
Operating Profit*	10,171	6,797	9,613

* Consistent with financial statements

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

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

**** There are joint costs existing among the Company's fields of activity, and the key to their distribution is determined according to the number of employees in the field

	As of December 31	
	2009	2008
	NIS thousands	
Assets attributed to the sector's field of activity:		
Products	21,667	23,184
Systems	13,356	3,813
Other	38	53
Unallocated	70,346	75,371
Total Assets*	105,407	102,421

* 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 therefore intended to address these requirements, including rapid response to the changing needs of the market, simplicity of design and of operation, connectivity to organizational management systems (ERP), high reliability and time between malfunctions (MTBF), high availability, as well as savings and efficiency.

For an analysis of the general environment, as well as for general information on areas of activity presented in this report below, the Company relies, *inter alia*, on several market surveys. However, it is important to note that except for a number of articles, the Company has no extensive market surveys on these areas of activity that were conducted after the onset of the global economic crisis which began 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 previous reports from June, 2008 and September, 2005, titled Programmable Logic Controllers Worldwide Outlook (Market Analysis and Forecast through 2013) (summary accessible to the public at http://www.arcweb.com) (hereinafter: the "**ARC Report**"); a 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" and an article from January, 2009 titled "Integrated Automation Solutions become more important to PLC Suppliers (summaries 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 – on the one hand, and by the state of the global and local economies and their general influence on various industries – on the other hand.

Additional trends in the global automation market as appear in the above mentioned market surveys are the economic growth and accelerated industrial development of certain geographic regions of the world, such as China, India, Russia, Brazil and Eastern European countries, which show increased activity in establishing local production capabilities and enterprises and increasing introduction of automation into such 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 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 field of activity separately, see Sections 1.9 and 1.10 below.

Part III – Description of Company business by fields of activity

1.8 Overview – synergy between Company's fields of activity

The Company engages, as stated above, in the Products field, in the design, development, manufacture, marketing, sale and support of industrial automation products, mainly PLCs, and in the Systems field, 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, distribution centers and automated parking systems. In addition, through a subsidiary, the Company engages in the management and maintenance of Unitronics Building, mainly for the provision of infrastructure services for the structure in which it carries out its main activity in the products and system fields mentioned above, and also for additional renters in the Unitronics Building.

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

1.9 The Products Field

1.9.1 Structure of the activity field 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 of 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 1.9.24 and 1.9.25 of this report.

1.9.3 Changes in scope of field operations and profitability

According to the ARC Report (see above), the global PLC market was estimated at approximately $ 9 billion in 2007, and is expected to grow to approximately $ 12 billion by 2012. The last ARC Report anticipates that following the significant decrease in sales in the PLCs market in 2009, as a result of the global economic crisis, the growth trend will return in 2010, and the market will revert to the sizes that were anticipated between 2008 and 2012, and will continue to grow. (http://www.imsresearch.com/) The IMS Report (see above) estimates the global PLC market at approximately $ 6 billion in 2003, and anticipated a growth to approximately $ 9 billion by 2011. The earlier Frost & Sullivan Report estimated the market at approximately $ 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 of 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 approximately 4.5% to approximately 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 1.9.10 below, the Company focuses in the Products field 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 fields. Thus, for example, the ARC Report estimates that the motor vehicle industry, which accounts for approximately 17% of the global industrial PLC market, will grow between 2004 and 2009 by approximately 5.9% per year, and that the food and beverages industry, which accounts for 12% of this market, will grow between these years by approximately 6.7% per year. Machinery manufacturers, which account for approximately 11% of the global industrial PLC market, are expected to grow between 2004 and 2009 by approximately 6.4% per year. The highest rate of growth according to the ARC Report is in the building control industry, which accounts for approximately 3% of the PLC market and is expected to grow between 2004 and 2009 by approximately 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 available to the Company) 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 countries, in the field of establishing production capacity and local enterprises, and the increasing introduction of automation into such enterprises, give rise to expectations of higher growth rates in these regions.

As stated above, except for 2009, 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 even expand into various fields (a forecast that, as stated, preceded the global economic crisis which began in 2008, but companies such as ARC anticipate continuing growth already from 2010). The ARC company anticipates that the PLCs market will expand beyond the traditional industry clients (enterprises and car manufacturers) even more towards inclusive automation solution providers that combine the production lines and the data collection systems in the field, to the organizational data and management systems. The Company identifies a trend towards increased utilization of decentralized systems based on smaller PLCs. In the Company's opinion this trend arises, *inter alia*, from ongoing pressure on prices of PLCs. The above may, in the Company's estimation, cause a decline in profitability for companies engaged in this field (including Unitronics, although the Company is unable to quantify this decline in profitability[1]), resulting from a decline in market prices of PLCs.

1.9.4 Technological changes which could have a material impact on the field of activity

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 various sizes and the use of touch screens as a means of man-machine communication in equipment and machinery. The Company designs its

[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.

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 detailed in Sections 1.9.10.1 and 1.9.12 below.

1.9.5 Critical success factors in the activity field and changes therein

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

1.9.6 Changes in the suppliers and raw materials infrastructure in the field of activity

In times of economic crisis, such as that which began in the second half of 2008, world electronic components manufacturers adjust and reduce their production capabilities more than once, to the extent required in the crisis period. With the beginning of extrication from the crisis or when there is once again an increase in the demand for components, a delay in the supply of components is created, attributable among others to the manufacturers' response time to the changes in demand and to a situation in which the manufacturers prefer supplying the demand of big clients to supplying the demand of small and medium clients (a situation named "allocation"). In recent quarters, a prolongation in supply periods of electronic components in the industry is evident (as described, for example, by the TI company in an article from December 19, 2009 in the Electronics Weekly Magazine):
(http://www.electronicsweekly.com/Articles/2009/12/09/47610/ti-sees-better-q4-but-suffering-supply-constraints.htm).
As in previous periods in the past, in which the supply periods of electronic components were lengthened, the Company is preparing and is equipping itself in advance with components whose supply periods have lengthened, developing alternative acquisition channels, and updating the suppliers in time regarding the forecast quantities.

1.9.7 Principal entry and exit barriers of the field of activity and changes therein

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

1.9.8 Substitutes for the products in the field of activity and changes therein

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

1.9.9 Competitive landscape in the field of activity 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 field belongs to this category. The Company is not aware of other Israeli companies in this category.

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

1.9.10 Products and services

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

1.9.10..1 PLCs and expansion units

The Company designs, develops, manufactures, markets, sells and supports several series of PLCs. These PLCs are based on a central processing unit (CPU) for computer-embedded industrial systems that coordinates the range of command, control, and communications operations executed by the PLC. The Company’s PLCs also incorporate an integral human-machine interface (HMI) component designed to enable the operator to control the PLC itself, and through it the instruments controlled and monitored by the PLC. This interface may differ from one product series to another in its nature and complexity, and it includes a data display (alphanumeric and/or graphic), a programmable keyboard and/or a regular keyboard and/or a touch screen. The PLC communicates with external components (such as the production devices themselves, engines or sensors) by means of built-in physical connections ("sockets" of sorts, similar to phone or computer sockets) intended for data input and output. The input/output capabilities of a PLC (number and type of connectable devices) define its dimensions as a nano 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 detailed below). The Company's PLCs have been designed for compatibility with the different protocols of line and wireless communications, including by means of the Internet (remote control and access, from inside and outside the organization, by means of a computer, with no physical connection), intranet (PLC-PLC communications and/or PLC-computer communications within the organization), and by means of a cellular phone (access to information and/or to means of control without a physical connection and without a computer, using cellular phone infrastructures, e.g. by means of SMS messages or by transmitting files over various telecommunications networks, such as GSM, CDMA, GPRS, CDPD and others). The communications capability of the PLCs is intended to enable tracking, control and monitoring of systems and processes, not only from the site in which the PLC is installed (production floor, logistics warehouse, etc.), but also from other stations, including the management offices or even from outside the organization's premises, thereby providing access to data and/or means of control for different levels in the organization, from production machine operators within the organization, through the organization's planning and control levels (including raw material inventory planning, finished 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 large illuminated color LCD screen permitting graphic display and operation using the screen (a touch screen). The operator's interface is especially user-friendly, with integral input-output points expandable up to 153 points using an external expansion unit (see sub-section (f) below). The color display feature integral to this PLC is in line with market trends, which demand friendlier user interfaces and application of color displays in many machines and devices.

(e) Graphic PLCs: nano-PLCs of the Jazz™ 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 that mechanically and electrically connect to the PLC (named snap in modules), enabling the addition of tens of I/O points (besides the PLC's built-in points), as well as units (named I/O Expansion Modules) that connect electrically only to the PLC, enabling, via the use of an industrial communications network, the addition of hundreds of additional I/O points, depending on the type of PLC (the PLC's specific type and power determine its ability to handle the number of points). This allows for upgrading the PLCs' functional capabilities to match those of small and medium PLCs. These expansion units are designed to increase the flexibility and compatibility of the various PLCs according to the varied and specific needs of each user, and also to aid in reducing the costs involved in the purchase, installation and maintenance of larger and more expensive PLCs and/or of larger numbers of PLCs.

(g) Accessories: The Company provides complementary accessories for the above 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 additional points, using external expansion units and communications networks. In the future the Company may expand its activities into the realm of larger PLCs, allowing operation of a higher number of I/O points (see Section 1.9.12.2 of this report).

1.9.10.2 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.

1.9.10.3 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.

1.9.10.4 Services

Services of the Products Department comprise primarily technical support for Company products, and are delivered by a technical support team offering pre-sale support services for purchasing Company products (mainly consulting for customization of products to each customer's specific needs), post-sale training and technical support for assimilating the products and/or troubleshooting. Applications to the support team usually originate from the Company's distributors (see section 1.9.14.2 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).

1.9.11 Revenue segmentation and profitability of products and services

The Company's revenues from its activity in the Products sector amount to 59%, 81%, and 68% of its total revenues in 2007, 2008 and 2009, 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 2007 and 2009 are largely due to different (though not significantly different) profit margins of several transactions, coupled with changes in manpower inputs during these periods.

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

	For the year ended December 31		
	2009	**2008**	**2007**
	In NIS thousand (*) (and percentage of total revenues/gross profit, approximated)		
Products (**) (***)	(68%) 57,496	(81%) 64,418	(59%) 60,041
Gross Profit (Loss), (total and rate)	(53%) 30,687	(50%) 31,900	(45%) 26,931

(*) The financial data for the years 2007, 2008 and 2009 are in NIS thousands.

(**) 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.

1.9.12 New products

The Company, through its R&D teams, engages in the development of new technologies and products and in the upgrading and improvement of existing ones. 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.

1.9.12.1 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 1.9.20 in this report), the Company has decided to shift the focus of its development efforts to other products (see section 1.9.12.2 in this report) while continuing development of the WilCo™ technology at a slower pace. Certain of the produce of the development 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

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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.

technology (see below) and the Company is in compliance with its obligations to report to the Chief Scientist in respect of this participation.

1.9.12.2 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 1.9.10.1 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[3]. 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.

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[4].

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3 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.

4 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

1.9.13 Customers

1.9.13.1 The direct customers of the Products Department are mainly distributors bound to the Company by distribution agreements (see 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.

1.9.13.2 Major Customers: For details see section 1.9.14.3 in this report.

1.9.13.3 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.

1.9.14 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.

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

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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.

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

1.9.14.2 Distributors: The Company's products are marketed through distributors in Israel; Europe (Austria, Ukraine, England (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.

1.9.14.3 Material distributor: The Company's revenues from one of the distributors of its products constituted approx. 4.8%, 5.3% and 4% of its total revenues in 2009, 2008 and 2007, 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 4.4%, 6.5% and 5.7% of its total revenues in 2009, 2008 and 2007, 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.

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

1.9.15 Order backlog

As of December 31, 2009, the Company had an order backlog of approx. NIS 10.5 million for the Products Department, and as of March 2, 2010, the Company had an order backlog of approx. NIS 10.3 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, 2009 NIS in thousands	Product order backlog as of March 15, 2010 (closest possible date to date of this report) NIS in thousands
For Q1 2010	5,521	6,397
For Q2 2010	1,776	1,629
For Q3 2010	1,037	888
For Q4 2010	1,136	739
For 2011 and thereafter	904	630
Total	10,463	10,283

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

1.9.16 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 1.9.9 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.

1.9.17 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.

1.9.18 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, a insignificant share of the components of the electrical circuits, and generally performs by itself the final assembly of the product, its electrical testing, calibration and packaging. The use of subcontractors to carry out most of the production stages is also intended to improve the possibilities of growth and flexibility in view of the high production capacity using existing subcontractors and the ability to add subcontractors as needed (subject to the learning and assimilation curve described below). As for production operations within the Company, as of the date of this report most of the production capacity is utilized, but the Company is able to increase its production capacity for these activities as needed, because of the possibility of assigning to these tasks unskilled manpower that is therefore relatively available and that requires only a short training period. The average production time for most of the Company's products is about two months, 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 2009, 2008 and 2007 constituted 7.4%, 8.7% and 5.7%, 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 lead to 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.

1.9.19 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 three business sectors (for details, see section 1.12 below).

1.9.20 Development Expenses

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

	For the year ended December 31		
	2009	**2008**	**2007**
	NIS thousands (*)		
Payroll and benefits	4,479	6,349	6,480
Subcontractors	281	518	447
Other expenses	1,923	2,183	2,345
Less Chief Scientist participation			-
Less capitalized expenses that were recognized As an intangible asset	(4,567)	(7,433)	(7,625)
Total	2,116	1,617	1,647

From 1992 through December 31, 2009 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, 2009, 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, 2009, the Company paid royalties to the Chief Scientist in a totaling NIS 196,000 (of which approx. NIS 25,000 from 2001 to 2005). As of December 31, 2009, the balance of liabilities in respect of grants received by the Chief Scientist, which are attributable to programs that the Company's management believes may generate royalties, amounts to approx. NIS 186,000. As of the date of this report, the Company has met its obligations to the Chief Scientist.

1.9.21 Human Capital

The 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).

1.9.22 Raw materials and suppliers

1.9.22.1 The Company's products may incorporate about 30-350 mechanical and electronic components, including electronic circuits and their components, keyboards, alphanumeric and/or graphic display screens, and others. About 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 3-4% of the components in most of the Company's products are custom made for it in accordance with a specification and/or plan, mainly plastic casings, keyboards, printed circuit boards (PCBs), various connectors, metal parts and touch layers in the touch screen. Although these components are of major importance in Company products, they may be ordered from several suppliers/ manufacturers inside and outside Israel, 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. For particular products, where the replacement of a supplier may lead to a longer delay, safety inventories representing immaterial amounts, are maintained for a period of 4 months.

Regarding a small number of items that represent about 1% of the components in most of the products (representing immaterial amounts in purchases, financially, in the years 2008, 2009), 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.

In accordance with section 9.6 above, the Company is preparing and is equipping itself in advance with components whose supply periods have lengthened, developing alternative acquisition channels, and updating the suppliers in time regarding the forecast quantities, for the benefit of meeting demand during years of recovery from crisis, such as the one that began in the second half of 2008.

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

	Off-the-shelf components	**Custom made components**
Multiple manufacturers/suppliers with no need for customization	95%	3%-4%
Multiple manufacturers/suppliers; need for little customization (potential delay of up to 3 weeks) and particular items, where the replacement of a supplier may lead to a longer delay, safety inventories representing immaterial amounts, are maintained for a period of 4 months.	4%	
Single manufacturer; a few suppliers; replacing the manufacturer may cause significant delays and may involve changes to products and associated costs	1%	

1.9.22.2 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.

1.9.23 Working Capital

1.9.23.1 Inventory: The Company holds on a regular, ongoing basis about 70-120 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 35-60 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[5].

5 The information concerning inventory conservation methods is forward-looking information. The principal data

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

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

	2009		2008		2007	
	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	7,920	50	7,240	41	4,686	28
Suppliers	4,464	95	4,204	70	3,213	50
Subcontractors	976	88	1,098	87	773	59

1.9.24 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

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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.

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[6]. As of the date of this report, the Company has 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.

1.9.25 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

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

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).

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[7].

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

1.9.26 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

[7] 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.

countries and territories, customer satisfaction, percentage of repeat sales to these customers, and overall contribution of the Products sector to the Company's profitability.

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

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

1.9.27 <u>Development forecast for the upcoming year</u>

In light of the onset of a global economic crisis in the second half of 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.

1.9.28 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					
	2009		**2008**		**2007**	
	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	51%	35%	54%	44%	55%	32%
Israel	7%	5%	7%	5%	8%	4%
North America	26%	18%	23%	19%	20%	12%
South & Central America	9%	6%	9%	8%	10%	6%
Asia	3%	2%	3%	2%	4%	2%
Africa	1%	1%	1%	1%	1%	1%
Rest of the world	3%	1%	3%	2%	2%	1%

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)[8], 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[9]. 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 field outside Israel (initially, primarily in the USA), its profitability may be reduced in the future.[10]

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8 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.

9 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.

10 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

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 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.

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sector, with increased professionalism and focus by various producers on their own unique niche areas.

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 pursuant to signed annual service contracts.

The Company estimates that the key success factors in the Systems sector include the knowledge and experience accumulated by the Company in design and construction of such systems; the range of solutions in response to market needs and trends; the functional reliability of the various components including the software and control systems being offered; and the high level of service and support 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 those 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. In 2008, primarily due to the global economic crisis that began in the latter part of the year, there was a deceleration in the pace of project starts in this sector, but in 2009 the Company signed several new agreements (the main ones are detailed below). The Company is unable at this time to make any assessment regarding growth or maintenance of the sales rate in this sector.

On May 6, 2009, the Company signed an agreement with a customer in Israel to build an automated warehouse, as well as an additional agreement with the customer and a shelving contractor in the project. The project is valued at €23 million (of which €15 million are the estimated revenues to be generated to the Company from the areas for which the Company is directly responsible and €8 million from the shelving part of the project), an amount that is considered material to the Company and which is expected to affect the Company's revenues and profits. The project is scheduled to be completed at the start of 2011 (for details see supplementary report to Immediate Report concerning an event or matter outside the ordinary course of Company business dated May 12, 2009, reference no. 107643-01-2009). Later on the Company signed an agreement with the same customer to set up an automated gathering system, which is estimated at

€1.8 million and which is scheduled to be completed at the start of 2011 (for details see Immediate Report concerning an event or matter outside the ordinary course of Company business dated May 12, 2009, reference no. 323901-01-2009). Details on said agreements with Principal Customer B are set forth in section 1.10.9 below.

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.

In addition, and concurrently with the Company's activity in the field of logistic systems and automated warehouses, several years ago the Company began implementing its abilities, developments and extensive experience in the planning, establishment and maintenance of complex conveying systems and advanced control systems, also in the field of automated parking lots. This field calls for tools, methods and systems very much like those in the field of logistic systems. In both fields of logistic systems and automated parking lots, the Company reuses various modules (mechanical modules, control modules and software modules) which are suitable to the system's requirements and thus allow the Company to integrate modules during the planning and set-up stages.

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. However, the pace of penetration of automated parking systems and their acceptance by building developers, local authorities and city drivers worldwide is still unknown and the Company is unable to estimate it.

On December 1, 2009, the Company signed a contract for the construction of an automatic parking facility in Mexico. The contract is for the supply and construction of an automatic parking facility to a customer in the capital Mexico City and includes the supply of mechanic systems, control systems and software for managing automatic parking lots. The project is estimated at €2.36 million and is scheduled to be completed in th second half of 2010 (for details see immediate report concerning an event or matter outside the ordinary course of Company business dated December 17, 2009, reference no. 206969-01-2009)

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. 41%, 18% and 31% of its total revenues in 2007, 2008 and 2009, 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		
	2009	**2008**	**2007**
	In NIS thousand (and percentage of total revenues/gross profit, approximated)		
Systems	(31%) 26,133	(28%) 14,597	(41%) 41,528
Gross profit (loss) (amount and rate)	(7%) 1,860	(4,052)	(11%) 4,578

1.10.9 Customers

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

The 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 18 months for setting up the system, depending on its complexity and other factors, which vary from case to case) and installment payments according to the progress in work. Under these agreements the Company is generally required to furnish guarantees (mostly bank guarantees) to secure performance of its obligations. As of the date of the report, the Company provided bank guarantees as aforesaid for a total cumulative sum of approx. NIS 18.1 million. Within this framework the Company is obligated, under letters of undertaking concerning the issue of bank guarantees to: (a) repay any amount demanded by the bank and/or paid by the bank in respect of or in connection with said guarantees, and to repay all amounts to the bank with interest at the highest rate and bank fees; (b) indemnify or compensate the bank in any case of legal proceedings or claims filed against the bank, resulting in damages, expenses or losses to the bank in relation to the guarantees, directly and/or indirectly; and (c) waive any claims or contentions against the bank relating to the fulfillment of guarantees.

The Company further undertakes to train the customer’s employees to operate the system, and grants a 12-month warranty period for the major components of the system (or longer periods of warranty coverage subject to the inclusion of the warranty price in the cost of the project), which generally includes an undertaking to start attending to certain malfunctions within predefined timetables, a commitment to provide service against payment at the end of the warranty period, and an undertaking to ensure the availability of spare parts for defined periods.

Major 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					
	2009		2008		2007	
	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	1.3%	0.4%	7.8%	1.4%	24,90%	10.1%
Customer B	34.3%	10.7%	0%	0%	0%	0%
Total sales to major customers	35.6%	11.1%	7.8%	1.4%	24.90%	10.1%

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: as set forth in section 1.10.7.2 above, pursuant to an agreement signed in May 2009 between the Company and principal customer B (Solomon Levin Valshtein Ltd – hereinafter "**SLV**"), the Company undertook to design, supply, set up and install an automated logistics system for the distribution center in the Modiin Industrial Zone (Shoham) for a total cumulative amount of €23 million (of which €15 million are revenues to be generated to the Company from areas to which the Company is directly responsible and €8 million from the shelving area in a project that is under the responsibility of an Austrian company), an amount which is material to the Company and which is expected to have an impact on the Company's future revenues and profits. The payments in this project will be made in accordance with milestones set forth in the project's schedule, and the project is scheduled to be completed at the start of 2011.

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

The Company will recognize revenues from this project in its financial statements based on the percentage of completion method, while the percentage of competion is determined based on completion of engineering stages of the work (for details see supplementary report to Iimmediate Report concerning an event or matter outside the ordinary course of Company business dated May 12, 2009, reference no. 107643-01-2009).

On December 17, 2009 the Company signed an agreement with principal customer B to set up an automated gathering system, which will constitute an integral part of the aforementioned automated warehouse. The project is estimated at €1.8 million, an amount which is material to the Company. Payments will be made in accordance with milstones set forth in the project's schedule, and the project is scheduled to be completed at the start of 2011.

For this project as well, to secure the fulfillment of its liabilities, the Company has undertaken to provide bank guarantees and to an agreed compensation in certain cases, at progressive rates. Some of the consideration paid under this agreement will be made by way of transferring used equipment of principal customer B to the Company (for details see Iimmediate Report concerning an event or matter outside the ordinary course of Company business dated May 12, 2009, reference no. 323901-01-2009).

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, in-house marketing and sales team operate in Israela and in the US, including a number of employees handling relations with potential customers, responding to tenders, preparing price proposals, promoting customer relations and locating business opportunities in Israel and overseas, with assistance from the Company's network of distributors as required (for details of the Company’s network of distributors, see section 1.9.12 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 3-18 months, depending on system complexity. Below are data on binding agreements for the Systems Department's services in the periods as follows:

	Agreements to deliver Systems Department services as of December 31, 2009 – thousands of NIS	Agreements to deliver Systems Department services as of March 1, 2010 (closest possible date to date of this report) thousands of NIS
For Q1 2010	21,619	21,931
For Q2 2010	19,026	19,996
For Q3 2010	18,193	18,547
For Q4 2010	23,048	23,528
For 2011 and thereafter	29,210	29,153
	21,619	21,931
Total	19,026	19,996

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's main competitors include Dematic, Swisslog and SS Schafer.

The Company competes and intends to continue competing, primarily on the basis of the quality of its services compared to that of its competitors (including service functionality, performance and quality of the technical support and customer service provided by the Company). However, there is no certainty that the existing or potential customers will regard the Company's services as more worthy than those of the competitors. Similarly, there is no certainty that its competitors will not develop services that will render the Company's services less competitive.

1.10.13 Seasonality

The Company does not identify 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), and again during 2009, 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 2010. 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 the three 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 the three business sectors of the Company, 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 Inventory: The Company does not maintain significant inventories in the Systems Department. However, at times the Company records an inventory of works in progress, resulting from expenses in respect of projects carried out in this area (such as conveyance equipment and shelving systems) which usually reflects progress in the execution of projects on the reporting date only.

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

1.10.18.3 Credit extended: Customers of the Company's Systems Department are generally 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:

	2009		**2008**	
	Average credit in NIS thousands	Average credit days	Average credit in NIS thousands	Average credit days
Customers	2,269	32	2,674	67
Suppliers	331	61	615	65

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

At the same time, the Company plans to continue its marketing activities and the penetration of the automated parking market, which are designed to increase awareness of the advantage of automated parking solutions.

In order to maintain the pace of growth in sales of automated systems that was recorded in reported year, the Company plans to continue directing additional resources to marketing activities and the penetration of certain export markets (for the automated logistic market as well as theautomated parking market), 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 – primarily focused on the USA and South America[11].

The Company expects an increase in the development expenses, required for the development of components (modules) in this sector, intended, inter alia, for the purpose of reducing production costs in the Systems sector.[12]

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).

	For the year ended December 31					
	2009		**2008**		**2007**	
	In percent					
	Share of Systems Department's revenues	Share of total Company revenues	Share of Systems Department's revenues	Share of total Company revenues	Share of Systems Department's revenues	Share of total Company revenues
Europe	-	-	-	-	4%	1%
Israel	86%	27%	95%	17%	77%	31%
North America	4%	1%	5%	1%	19%	8%
South & Central America	10%	3%	-	-	-	-

11 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.

12 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.

1.11 Other Activities

The Company has an additional 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 Building Management and Maintenance (2003) Ltd., in connection with the use of Unitronics Building (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		
	2009	**2008**	**2007**
	NIS in thousands		
Revenues from Unitronics Management operations	489	705	699

1.11.1 Structure of sector and changes therein

Unitronics Management is primarily engaged in the provision of maintenance services and similar services related to the use of Unitronics Building, as stated in section 1.21.1.1 below.

1.11.2 Restrictions, legislation, regulation and constraints applicable to the sector

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

1.11.3 Changes in activity in the sector and its profitability

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

1.11.4 Main entry and exit barriers to the sector and changes therein

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

1.11.5 Substitutes for the products of this sector, structure of competition and changes therein

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

1.11.6 Products and services

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

1.11.7 Brekadown of revenues and profitability of products and services

The Company's revenues from this operation are negligible and accounted for less than 1% of total revenues in each of the years 2007 through 2009.

1.11.8 Customers

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

1.11.9 Human capital

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

Part IV – Matters concerning overall Company activities

1.12 Fixed assets, facilities, insurance and liens

The principal fixed property used by the Company comprises the Unitronics Building 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 Building – 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 Building**, 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 Building**"). The Company also has lease rights in an additional lot of about one quarter acre adjacent to Unitronics Building, 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 Building were signed by the Israel Lands Administration. The Company is acting to have the Unitronics Building registered as a condominium at the land registry office. The Company's rights in the Unitronics Building 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, 2009 is approx. NIS 13,521,000. In its ongoing activity the Company uses all areas of the Company's Floors in Unitronics Building. The remaining floors in Unitronics Building (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. 936 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 Building – 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 Building Management and Maintenance (2003) Ltd, with respect to the management of Unitronics Building), 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 the exercise of the option for a second time, and to extend the rent period by a further 12 months starting from August 2008 (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 – reference no. 141636-01-2008, as well as a report concerning an extraordinary business transaction with an officer, dated May 21, 2008 – reference no. 141642-01-2008).

Following the termination of the aforementioned lease agreement in July 2009, on May 21, 2009, the Board of Directors and Audit Committee of the Company, subject to the approval of the general meeting of the shareholders, approved the new lease agreement with the lessor for the leasing of 936 square meters of office space in Unitronix House as well as 20 parking spaces.

Pursuant to the lease agreement, the lease is for a period of thirty six months, commencing August 1, 2009, which is terminable at any time by 3-month notice, in accordance with the decision of the Audit Committee of the Company.

Pursuant to the terms of lease agreement, the rent is NIS 65 per square meter per month, linked to the Consumer Price Index, but no less than the known index on the date of signing the contract (plus management fees to Airport City at NIS 5 per square meter per month, and management fees of NIS 9.5 per square meter per month to the Company’s subsidiary, Unitronics Building Management and Maintenance (2003) Ltd, which provides management and maintenance services to Unitronics Building). The rent for the parking spaces is NIS 250 per each space (totaling NIS 5,000 per month for 20 parking spaces). The total cost of rent for the Company pursuant to the agreement is NIS 85,000 per month, linked to the Consumer Price Index (except for the parking space and the management fees), however, no less than the known index on the date of signing the contract.

The Audit Committee and the Board of Directors of the Company have determined that the growth in the Company's business, including the employment of additional staff, create the need to lease additional space. The said transaction will allow the Company to rent additional space in the fastest and most efficient manner, in the same building, and without relocation expenses and/or expenses incurred as a result of splitting the Company's operation into several locations.

Although the Board of Directors of the Company did not regard this transaction as an "Extraordinary Transaction" as the term is defined in the Companies Law, for the sake of prudence, the Audit Committee and the Board of Directors of the Company have decided to take a conservative approach and view the said transaction as an "Exception Business Transaction" and therefore, to bring the matter to the approval of the general meeting of the Company's shareholders pursuant to section 270(4) of the Companies Law. The Audit Committee and the Board of Directors further affirmed that this transaction is at market conditions and conducted during the ordinary course of business and that it does not harm the interests of the Company (for details on the approval of the transaction by the Audit Committee and the Board of Directors of the Company, see immediate report on an event of matter outside the ordinary course of business, dated May 21, 2009, reference no. 117399-01-2009).

On July 29, 2009, the general meeting of the Company's shareholders approved the lease agreement with a company controlled by Mr. Shani, as aforesaid (for details see immediate report concerning the results of a general meeting to approve a transaction with a controlling shareholder and/or to approve a private offer, reference no. 182700-01-2009, as well as an immediate report on the results of a general meeting dated July 29, 2009, reference no. 182697-01-2009).

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), leased until March 2011, for annual rent of approx. $35,000 for the period until March 2010, and for annual rent of $37,000 for the period until 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 Building 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 4.17.4 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 workers' compensation insurance of $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.

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, mechanical fracture insurance, electronic equipment insurance, terror 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 of 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.

1.12.7 Geographic regions

For details on the Company's activity by geographic regions, see section 1.9.28 regarding the Products Sector and section 1.10.22 regarding the Systems Sector. The following data relate to the Company's overall business activity:

Total non-current assets by geographic regions:

	2009	2008
Israel	36,429	34,898
North America	247	227
Total non-current assets	36,676	35,125

For additional details regarding the Company's activity by geographic regions see note 25 of the financial statements (section C of this report).

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, and in October 2008, 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 an application with the European Union Trademark Office 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, among others based 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[13].

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 2009, 2008 and 2007 the Company's investments in its intellectual property amounted to NIS 0, NIS 153,000 and NIS 64,000, 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.[14] .Several senior professional officers are subordinate to the CEO as set out in the chart below, in the

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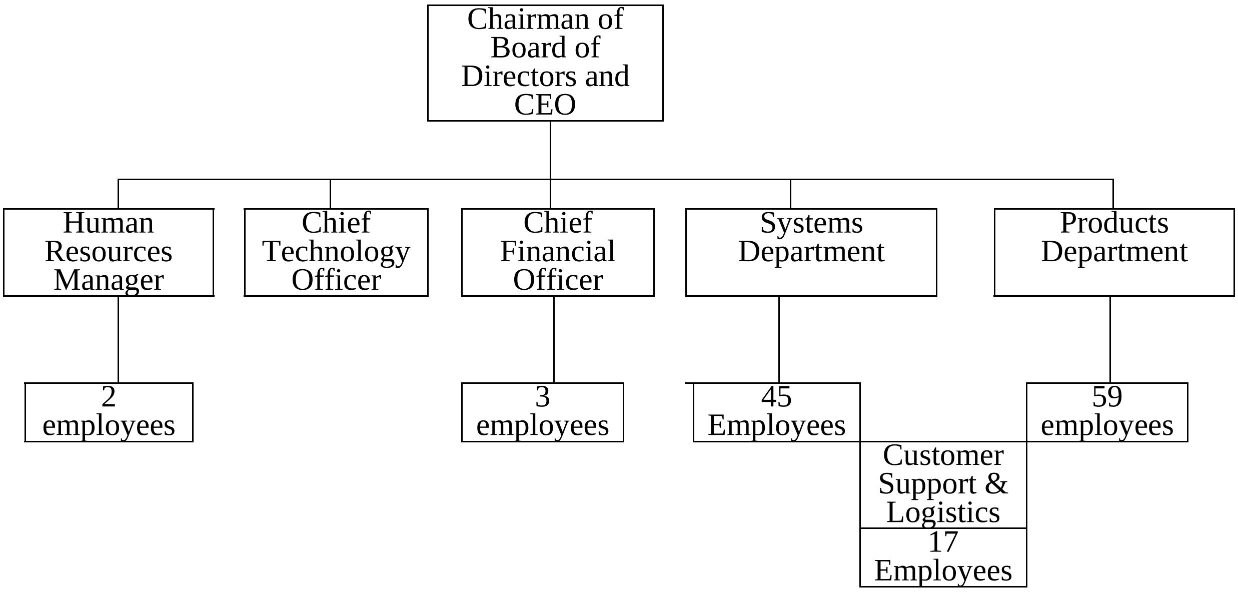
[13] The Company's estimates regarding its success in registering trademarks based on applications submitted is forward-looking information. The principal data which served as a basis for this information are: trademark research conducted by the Company and various checks conducted by Company's professional 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.

[14] 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.

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 manager 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:



1.14.2 <u>Company employees and breakdown</u>: In proximity to the date of this report the Company employs 143 employees in Israel; the subsidiary Unitronics Inc employs 5 employees (without written personal employment agreements). The subsidiary Unitronics Building 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**	**31.12.2009**	**31.12.2008**
Sales and Marketing	15	15	18
Research and Development	24	24	26
Administrative	11	10	10
Production, logistics and quality control	44	40	42
Integration and Support	49	43	34
Total	**143**	**132**	**130**

Employee breakdown by occupation

	No. of Employees		
Occupation	**Close to date of this report**	**31.12.2009**	**31.12.2008**
Administration staff	7	8	12
Professional technicians	24	21	16
Software Programmers (academic)	21	20	24
Engineers	20	20	15
Technicians, warehousemen and mechanical assembly staff	22	22	25
Academics (general)	19	15	12
Associate Engineers	30	28	26
Total	**143**	**132**	**130**

As of December 31, 2008, the Company employed 130 workers, the subsidiary Unitronics Inc. 6 workers, and the subsidiary Unitronics Building Management and Holdings (2003) Ltd. had no employees. As of December 31, 2007, the subsidiary Unitronics Inc. employed 4 workers, and the subsidiary Unitronics Building Management and Holdings (2003) Ltd. had no employees.

The Company adjusted its workforce during the reported period as detailed above, by reducing the number of staff in the Products departments and increasing staff in the Systems department, in line with the changes in its operations as described herein, and in order to address its business plans.

1.14.3 <u>Terms of employment</u>: Most of the Company's employees are employed 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. In respect of the balance of the Company's liabilities due to employee severance benefits that are not covered by such payments, adequate provision has been included in its financial statements.

Employment relations between the Company and its employees are not governed by the provisions of specific collective agreements including the general collective agreement applicable to the metal, electricity and electronics professions and including an extension order applicable to this agreement.

From time to time the Company grants its employees options to purchase its shares under the stock 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 the 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 an amount no less than 115% of the number of options 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 two-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 13, 2008 the Audit Committee and the Board of Directors approved payment of a bonus in the amount of NIS 208,000 to Mr. Haim Shani in respect of 2007, 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 13, 2008, reference no. 071985-01-2008). Mr. Shani is not eligible for a bonus in respect of 2008. On March 4, 2010 the Audit Committee and the Board of Directors of the Company approved payment of a bonus of NIS 689,000 to Mr. Haim Shani in respect of 2009, pursuant to the terms of the Framework Transaction, set forth above (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 4, 2010, reference no. 2010-01-404199)

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 the 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, reference no. 141630-01-2008).

On May 21, 2009, the Audit Committee and Board of Directors of the Company decided to approve a unilateral waiver by each of Mr. Haim Shani (controlling shareholder and chairman of the Board of Directors) and Mrs. Bareket Shani, of 15% of their monthly salary and associated social benefits. The waiver shall be for a limited period of six (6) months commencing as of the monthly salary for May 2009, at the end of which the salary and associated benefits will automatically revert to their original terms as in force prior to such waiver. The Audit Committee and Board of Directors determined that the unilateral waiver for a period of 6 months, as aforesaid, conforms to the directive of regulation 1B(1) of the Companies Regulations (relieves in interested parties' transactions) – 2000, i.e. it is solely for the benefit of the Company. (For additional details on the terms of employment of Mr. Shani and Mrs. Shani, see immediate report concerning a transaction with a controlling shareholder or a director that does not require the approval of the General Meeting, dated May 21, 2009, reference no. 141630-01-2008).

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, reference no. 316466-01-2007) 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, reference no. 316469-01-2007). 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, reference no. 313678-01-2007) 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, reference no. 313717-01-2007). 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, reference no. 313657-01-2007).

(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.

1.14.5 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, 2009			As of December 31, 2008			As of December 31, 2007		
	Credit amount NIS thousand	Interest	Effective interest rate	Credit amount NIS thousand	Interest	Effective interest rate	Credit amount NIS thousand	Interest	Effective interest rate
Short-term bank credit (current account)	-	-	-	-	-	-	-	-	-
Long-term bank credit (dollars)	3,295	Libor + 2.02%	Libor + 2.02%	3,733	Libor + 2.02%	Libor + 2.02%	4,196	Libor + 2.02%	Libor + 2.02%
Long-term bank credit (Euro)	4,017	Libor + 2.02%	Libor+ 2.02%	4,399	Libor+ 2.02%	Libor+ 2.02%	5,222	Libor+ 2.02%	Libor+ 2.02%
CPI-linked leasing loans	454	9.9%	9.9%	107	5.7%-8.5%	5.7%-8.5%	230	5.7%-8.5%	5.7%-8.5%
Series 2 bonds (CPI linked)	22,123	CPI + 6.1%	CPI+ 9.57%	33,226	CPI+ 6.1%	CPI+ 9.57%	30,941	CPI+ 6.1%	CPI+ 9.57%
Series 1 convertible bonds (Dollar-linked)	8,409	Libor + 2.5%**	Libor**+ 3.55%	16,646	Libor**+ 2.5%	Libor**+ 3.55%	24,686	Libor** +2.5%	Libor**+ 3.55%
Convertible bonds (Euro-linked)	-	-	-	-	-	-	1,955	**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 18.5 million, of which about NIS 18.1 million have been utilized as of December 31, 2009, 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 18.1 million 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, 2009, the Company has not taken loans in a substantial amount. 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.

The Company is prohibited from creating pledges on its assets (whether for the purpose of obtaining credit or for any other purpose), in addition to existing pledges, without the written advance consent by the Trusteee for the bonds (series 1), except with respect to the pledging of real estate and/or equipment to be acquired by the Company, the pledging of which will be used to secure financing for the pledged property. In addition, the Company is prohibited from creating a floating charge on any of its assets in favor of any third party, without the written advance consent of Bank Leumi Le'Israel Ltd.

1.16.2 The acquisition of the Company’s rights in the Company’s Floors in the Unitronics Building was financed primarily through a credit facility totaling NIS 13,735 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 outstanding debt to Bank Leumi as of December 31, 2009 for the New Credit Facility is about NIS 7,312,000.

1.16.3 In the framework of financing for the purchase of the Company's Floors, on August 22, 2000 the Company created, in favor of the Industrial Development Bank, a first ranking fixed and floating charge over its rights in the Unitronics Building, 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, to secure 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 the 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 assessment 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 authorization for execution of the plan, 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 in respect of which the Company was entitled to tax exemption, the Company shall be subject to corporate tax at a rate of 25% of dividends paid.

1.17.2 <u>Measuring results for tax purposes according to the Income Tax Ordinance (Adjustments for Inflation), 5745-1985</u> (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 while the additional tax deduction in respect of depreciation, will only be given for assets acquired by the end of 2007.

1.17.3 <u>The Encouragement of Industry (Taxes) Law, 5729-1969:</u> 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 <u>Tax rates on income not derived from the "Approved Enterprise":</u> 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 26% (2010 – 25%). On July 23, 2009, the law of "Economic efficiency improvement" (legislation amendments for the implementation of the Economic program for the years 2009 and 2010) was encated, which provides, among others, for a gradual reduction of the Corporate tax rate from 2011 as follows: 2011 – 24%, 2012 – 23%, 2013 – 22%, 2014 – 21%, 2015 – 20%, 2016 and thereafter – 18%.

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 carryforward losses for tax purposes as of December 31, 2009 totals about NIS 25 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 Building in Airport City are subject to obtaining a business license under the Business Licensing Law, 5728-1968. In June 2004 the Company received a business license 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 plant, in charge of compliance with the work safety provisions. The Company holds annual training courses for employees of various departments on work safety issues.

1.18.3 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 Building and financing of the acquisition: On July 23, 2000 the Company entered into an agreement concerning the purchase of rights in certain floors in the Unitronics Building, as detailed in section 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 has regulated the underwriters' obligations with respect to the distribution and underwriting of the securities and their fees (and expense reimbursement), which totaled approx. NIS 4,172,000. 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 that could mislead a reasonable investor or due to the inadequacy of any detail in the prospectus that could 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): Pursuant to the 2004 Prospectus, The Company issued NIS 35,000,000 par value of 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 six-month LIBOR + 2.5% per annum. The bonds are convertible into ordinary shares on any trading day through May 9, 2010, save from the 10th to the 23rd of May of each of the years 2007 to 2009, such that any outstanding 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 concerning the Company's avoidance of 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 — Meital Ben-Yosef, CPA
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 **"Previous 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 considering 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 Previous Calculation, the Company has been trying since May 2007 to locate the holders of these bonds during those periods, to pay them the interest rate differences between the Previous Calculation and New Calculation in connection with the bonds (series 1) they held on the dates in which payments were made based on the Previous 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 advertized in two Hebrew-language newspapers in Israel and in an immediate report issued on December 7, 2008 (reference no. 345444-01-2008), 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.

Following the said invitation, applications were received from the holders of the aforesaid bonds or their representatives, entitling their holders to payment in respect of aforesaid interest differences for a total amount of NIS 29,123. So far the interest rate differences paid to holders of said bonds who accepted the invitation totaled NIS 28,908.

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) – offered to prime banks on the London Interbank Market for six (6) month deposits in US dollars, 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 and at the TASE's request, 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, with the approval of the Board of Directors, the Company completed a buyback, off the stock exchange and not from interested parties, of 300,000 bonds (Series 1) at the price of 9,065 agorot, and for a consideration of 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 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 explained the approval of the buyback by arguing that the acquisition was an opportunity to carry out a profitable transaction, which could improve the Company's cash flow over time (for details, see immediate report on an event or matter outside the ordinary course of 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, reference no. 008772-01-2009).

For further details regarding bonds (Series 1) 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 November 11, 2009, 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 July 9, 2008 and October 5, 2009, is available for review by the holders of bonds (Series 2) at the trustee's offices (for details, see immediate report on the annual report – Bond Trust (Series 2) dated November 11, 2009, reference no. 279951-01-2009).
On January 8, 2009, with the approval of the Board of Directors, the Company completed a buyback, off the stock exchange and not from interested parties, of 7,100,000 bonds (Series 2) at the price of 7,445 agorot, for a consideration of NIS 5,286,000.

The Board of Directors explained its approval of the buyback by arguing that the acquisition was an opportunity to carry out an a profitable transaction, which could improve the Company's cash flow over time (for details, see immediate report on an event or matter outside the ordinary course of the Company's business from January 8, 2009, reference no. 008778-01-2009).

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 acquired bonds were cancelled and delisted on January 20, 2009 (see immediate report on changes in the Company's securities from January 20, 2009, reference no. 008772-01-2009).

For further details regarding bonds (Series 1) 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 inadequancy 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.

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 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, which the judge regarded as 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.

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.

Although the timefame available to Gharb for appeal to the US Supreme Court has elapsed (and prima facie since no appeal has been filed, the proceedings in the case have come to an end), Gharb sent the Company and its attorneys on June 5, 2009 copies of documents attesting to Gharb's attempt to appeal the decision of the US Court of Appeals before the US Supreme Court. The Company does not know whether these documents have actually been submitted by Gharb to the US Supreme Court, however, the Company anticipates that given the deficiencies in the documents sent by Gharb, the US Supreme Court will not admit these documents as evidence, if such documents are submitted.

According to an official report dated August 12, 2009 sent to the US Patent Office, which was submitted to the Company for review, the case is closed. The Company does not expect additional developments in this case.

1.20.2 Dispute with Mecalux

On March 19, 2009, the Company filed through its legal advisers a financial claim in the Tel Aviv-Yafo District Court against Mecalux Thyssen ("Thyssen"), a Spanish company engaged in the design, manufacture, sale and services of storage solutions, including shelving systems and automated warehouses – for damages incurred by the Company as a result of Thyssen's acts and omissions. The lawsuit stands at approximately 800 thousand Euro.

Around June 2005, the Company entered into an agreement with Maadanot Ltd. ("Maadanot"), a company engaged in the production of frozen food products, in the framework of a detailed purchase order for the construction of an automated storage and retrieval system for frozen products (i.e. an automated warehouse) in a commercial building in Gan Yavne, which was designated for the storage of its goods (the "Project"). Around July 2005, the Company entered into an agreement with Thyssen for the execution of works and services in connection with the construction of the Project, for the purpose of carrying out its obligations under its agreement with Maadanot.

Pursuant to the agreement with Thyssen, Thyssen undertook to supply all the materials and equipment and to act in a manner that would enable completion of the Project on time, in accordance with the definitions set for its work in the agreement. Thyssen undertook, inter alia, to supply the equipment, materials, documents and tools required for carrying out the Project, and also undertook to cooperate and to provide the Company with full access and information with respect to the equipment and works under the agreement. In addition, Thyssen undertook to train the Company's workers and to grant a warranty for the equipment and works executed by it in the framework of the Project.

However, as alleged in the lawsuit, Thyssen violated the agreement with the Company and that, *inter alia* it provided misrepresentations regarding its qualifications, standard of equipment and professional work and other commitments it undertook toward the Company under the agreement, in consequence of which the Company incurred damages.

On June 3, 2009, the parties submitted a motion by consent for amendment of the statement of claim due to a name change and merger, requesting to change the name of the defendant to Mecalux Servis SA. The honorable court approved the requested amendment.

On December 21, 2009, the parties signed a settlement agreement. The key points of the settlement: without this constituting an admission and/or consent by any of the parties to the allegations, mutual withdrawal of existing and/or future claims and allegations in relation to the dispute, the subject of the aforementioned proceeding, payment of an immaterial compensation by Mecalux Servis SA to the Company, as well as allowing the Company to buy spare parts in connection with the project at a fixed and agreed price for the determined period. The settlement agreement was validated as a court ruling by the US Court on December 23, 2009.

1.20.3 <u>Dispute with Robotic Parking</u>

On December 28, 2006, the Robotic Parking Company (hereinafter "Robotic") filed an amended claim (pursuant to an original claim from June 2006) against Hoboken City Hall, New Jersey, USA, and against its heads, concerning the automatic parking system set up by Robotic a few years earlier. Unitronics and Unitronics Inc. were added to this amended claim as additional defendants, inter alia, for violating patent and intellectual property rights, causing breach of contract and slander. In accordance with the terms of the agreements between city hall and Unitronics, the former is obligated, inter alia, to compensate Unitronics for all damages caused to it by claims of Robotics.

This dispute was resolved by way of compromise. The key points of compromise: mutual withdrawal of existing and/or future claims and allegations in relation to the dispute, the subject of the aforementioned proceeding, without payment of any compensation. The compromise agreement was signed by the parties on July 17, 2007, and validated as a court ruling by the US Court on July 20, 2007.

Additionally, on July 21, 2009, the court in New Jersey authorized the Company to present its position in an existing claim by Robotic against Hoboken City Hall, only in the context of the Company's protected trade secrets being at the disposal of Hoboken City Hall.

On October 30, 2009, the Company submitted a motion for a protective order against Robotic to safeguard its software on the grounds that the latter may gain access to the Company's trade secrets and protected intellectual property. Such protective order was granted in part on January 1, 2010. The Company has appealed ruling, and the matter is in litigation, together with additional technical requests.

On July 16, 2009, the Company initiated proceedings against Robotic in New Jersey, USA, in a claim for a protective order and compensation for damages, on the grounds of breaching the compromise agreement, causing breach of contract and abusing legal proceeding, due to Robotic's attempts to obtain information at the disposal of Hoboken City.

On September 24, 2009 Robotic asked the court to reject the Company's allegations, claiming that these do not constitute grounds for compensation. Supplementary evidence on the matter was submitted to the court on October 12, 2009, and the parties are awaiting the court's decision on the issue.

On October 6, 2009 the court rejected the Company's motion for protective order that was designed to prevent Robotic access to the Company's trade secrets and protected intellectual property. On November 5, 2009, the Company appealed the said court ruling. On January 27, 2010, the Company submitted an application to the appeals court, requesting to merge this case with the aforementioned case between Robotic and Roboken City Hall.

On January 7, the Company submitted an application to add Mr. Constantine Hag as a defendant in the case against Robotic and to add a defamatory allegation to the claim.

At this stage, the Company is unable to assess the claim's prospects on their merits.

1.21 Subsidiaries

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

1.21.1.1 General Description

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

Unitronics Management has engaged, commencing as from March 2004, primarily in the provision of maintenance services, holding and similar services in connection with the use of Unitronics Building (part of which is leased by Unitronics, while part is leased by parties at interest in Unitronics as set forth in sub-paragraph 1.12 of this Report). Pursuant to the decision of the audit committee and the Company's Board of Directors as of May 2003, Unitronics Management provides maintenance and holding services also to the other areas of Unitronics Building which are neither in use by the Company nor being leased by it, on condition that: (A) Unitronics Management will provide equal conditions to all lessees in Unitronics Building, which shall be similar to the conditions provided by other management companies in the environs of Unitronics Building; and (2) the effect of the provision of such services on the profitability of Unitronics, its assets or its liabilities, shall remain immaterial. In accordance with a decision of the Board of Directors of Unitronics, any deviation from the abovementioned decisions shall necessitate approval by the Board of Directors of Unitronics and any other approval required by law.

Unitronics Management operates out of Unitronics Building without offices, assets or designated employees of its own. The activity of Unitronics Management is carried out through managers and employees of Unitronics, making use of the assets of Unitronics, while all the occupants of the building pay for the Company's services on the basis of a key of charges that is identically applicable to all and requires payment pro rata to the area in use by each occupant. For details on the nature of the services provided by Unitronics Management and the payments collected by it (which are in amounts that are immaterial to the Company) see sub-paragraphs 1.11 and 4.4 of this Report.

1.21.1.2 Registered and issued capital, the Company's share

Correct to the date of this Report, the registered capital of Unitronics Management is NIS 100,000, divided into100, 000 ordinary shares of NIS 1 n.v., of which 1,000 shares have been issued, all of them held by the Company.

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

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

1.21.1.4 Loans, credit, guarantees, investments in the Company

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

Likewise, correct to the date of this Report, the Company has no investments in Unitronics Management.

1.21.1.5 Holders of more than 25% of the share capital

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

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

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

1.21.1.7 Directors and senior office holders in Unitronics Management

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

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

1.21.1.8 Profits/ (losses) of Unitronics Management

Correct to December 31, 2009, the accumulated deficit of Unitronics Management stands at NIS 296,000.

1.21.2 **Unitronics Inc.**

1.21.2.1. General description

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

Unitronics Inc. engages primarily in the Company's marketing and distribution activities in the United States, and operates a network of some 80 distributors spread throughout most of the states of the United States. The offices of Unitronics Inc. are located in the vicinity of Boston, Massachusetts, USA. Unitronics Inc. has five employees engaging primarily in coordination and support for the marketing activities of the Company's distributors in the United States.

1.21.2.2 Registered and issued capital, the Company's share

Correct to the date of this Report, the registered share capital of Unitronics Inc. stands at $10, divided into 1,000 shares of $0.01 n.v., all of which have been issued to and are held by the Company.

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

Correct to the date of this Report, the cost to the Company of the shares of Unitronics Inc. held by the Company, stands at US $ 10.

1.21.2.4 Loans, credit, guarantees, investments in the Company

The capital deficiency of Unitronics Inc. amounts, correct to December 31, 2009, to a sum of some NIS 6,536,000. The current debit balance of Unitronics Inc, to the Company amounted to NIS 13,509,000 correct to December 31, 2009.

1.21.2.5 Holders of more than 25% of share capital

Correct to 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 – Unitronics Inc.

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

1.21.2.7 Directors and senior office holders in Unitronics Inc.

	For the year ended December 31, 2009		**For the year ended December 31, 2008**		**For the year ended December 31, 2007**	
	Unitronics Building Management & Maintenance (2003) Ltd.	Unitronics Inc.	Unitronics Building Management & Maintenance (2003) Ltd.	Unitronics Inc.	Unitronics Building Management & Maintenance (2003) Ltd.	Unitronics Inc.
NIS 000s						
Profit (loss) before tax	(226)	(133)	(13)	(490)	(111)	(I,916)
Profit (loss) after tax	(226)	(133)	(13)	(490)	(111)	(I,916)
Dividend	0	0	0	0	0	0
Management fees	0	0	0	0	0	0
Interest income	0	0	0	0	0	0

Haim Shani serves as sole director and President of Unitronics Inc. For details on the sharing of Mr. Shani's remuneration between the Company and Unitronics Inc. see sub-paragraph 4.7.2 of this Report.

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

1.21.4 **Inactive subsidiaries:**

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

1.22 **Discussion of risk factors**

The following are risk factors affecting the Company (both in the domain of products and in that of systems), and management's assessment as to the extent of their influence on its business:

Type of risk	Nature of risk	Estimated extent of influence on the Company
Macro risks	*Exposure to market vicissitudes*: the Company is exposed to changes in general factors affecting the principal markets in which it operates such as the slowdown in business activity in Israel and worldwide and the effects of security events in Israel and worldwide.	High
	Exposure to the effects of the global economic crisis: the Company is exposed to the effects of the global economic crisis that commenced in the second half of 2008, and to its possible results, including, *inter alia*, a possible slowdown in the rate of acquisition of plc products and/or a possible slowdown in the rate of project commencements, including logistics projects.	High
	Exposure to interest rate risks: the Company is exposed to changes in the prime and Libor interest rates in connection with various loans as detailed in sub-paragraphs 1.16 and 1.19.4 above.	High
	Currency exposure: the Company is exposed to changes in the rates of exchange of the US dollar and the euro. See sub-paragraph 2.3.	Medium
	Exposure to investment in marketable securities: the Company is exposed to changes in the quotations of securities in which a material proportion of its monetary resources are invested. See sub-paragraph 2.3.	Medium
	Exposure to strikes in Israeli ports: strikes in the naval ports and/or airports of the State of Israel are liable to delay the import of raw materials serving the Company (including components of logistical systems) and/or the export abroad of the Company's products, and thus adversely affect the supply dates to which the Company is committed, which is liable to involve expenses to the Company and/or injury to its goodwill.	Low
Sector-related risks	*Competition*: the Company is exposed to competition on the part of elements whose resources and reputation exceed those of the Company as set forth in sub-paragraphs 1.9.7 and 1.9.14 (in relation to the products domain) and 1.10.7.2 and 1.10.12 (in relation to the systems domain) as set forth above.	High
	Technological development and/or new products: the Company is exposed to the risks involved in the development of new products and/or technologies the success of whose development or the marketing of which are in doubt as set forth in sub-paragraph 1.9.10 above.	Medium
	Standardization: the Company is exposed to risks deriving from the failure of its products or services to comply with	Medium

	certain standardization requirements as set forth in sub-paragraph 1.9.22 and 1.9.23 and 1.10.19 above.	
	Penetration to the Automated Parking Market: the Company is exposed to risks driving from its activity if the field of automated parking and the rate of implementation of automated solutions by customers in the world, as as set forth in sub-paragraph 1.10.7.2 above.	Low
	RoHS and WEEE Directives: the Company is exposed to the risks deriving from the future possible failure of its products or services to comply with the requirements of the European directives as set forth in sub-paragraph 1.9.22 and 1.9.23 above.	Low
	Raw materials: the Company is exposed to risks deriving from possible temporary global shortages of electronics components and from restricted allocations of components (allocations and compliance with the RoHS directive) by components manufacturers in certain cases of excess demand, as set forth in sub-paragraphs 1.9.20 and 1.9.22 above.	Low
Risks unique to the Company	*Principal customers*: material proportions of the Company's income derive from a small number of principal customers which contract with the Company in material transactions being, by the nature thereof, one-off transactions, as set forth in sub-paragraphs 1.9.12.3 and 1.10.9 above.	Medium
	Dependence on the Israeli market: the Company's activity in the domain of systems is dependent on the Israeli market, which tends to be affected more than overseas markets by macro risks and the sector-related risks described above, and the demand for projects in which is more scant than the demand on corresponding overseas markets.	Medium
	Dependence on founder and controlling shareholder: the Company has material dependence on the continuing services of Mr. Haim Shani as set forth in sub-paragraph 1.14.4 A above.	Medium
	Leveraging: the Company has commitments for the repayment of loans, *inter alia*, in respect of the issuance of the (Series 1) debentures pursuant to the Prospectus of 2004 and also in respect of a loan for the purchase of Unitronics storeys (as set forth in sub-paragraph 1.16.2). The issuance of the (Series 2) debentures pursuant to the Prospectus of 2006 entailed an increase in the Company's liabilities for the repayment of external loans. The Company's Board of Directors determined in its decision that the Company's cash flow was sound and that it would be able to meet its commitments, including the repayment of the loans in respect of the issuance of the (Series 1 and Series 2) debentures. However, if the Company's assessments of its financial soundness prove erroneous, and if the Company's policy of making investments with the moneys of the loans as stated does not succeed, the fear exists,	Medium

	although it is not likely, that the Company will be unable to meet the repayment terms of the above loans. Likewise, it is by no means certain that the use of the loan moneys (for the purpose of developing the Company's business) will yield the desired results, which would make it difficult for the Company, despite its financial soundness, to comply in future with the repayment conditions. The balance of the Company's liabilities for repayment of external loans currently stands at some NIS 38 million.	
	Unregistered intellectual property: the Company has certain items of intellectual property that are not registered (although the Company also has registered intellectual property). The Company is exposed to risks deriving from the non-registration of those intellectual property items respecting which applications are pending (for details see sub-paragraphs 1.9.10.1, 1.13.2 and1.13.3) and in respect of intellectual property that has not been submitted for registration.	Low
	Low share prices and trading volumes: the Company's shares are traded in the Stock Exchange in Belgium at prices significantly lower than the price at which they were offered to the public in 1999 (3.72 euro) , and on the Tel Aviv Stock Exchange, at prices lower than those of the public offering in May 2004 (NIS 7.55 per share). It is by no means certain that the price of the Company's share on the Stock Exchange will continue to slide. Also, the volumes of trading in the Company's shares on the Stock Exchange in Belgium and on the Tel Aviv Stock Exchange are generally low and different, a fact which adversely affects their marketability.	Low
	Absence of arbitrage on the Stock Exchange in Israel and in Belgium: even though the Company's shares are trade on the EuroNext Stock Exchange in Belgium and on the Tel Aviv Stock Exchange, it is not possible at this stage to hold parallel trading of the Company's shares on those two Stock Exchanges in real time. Under these circumstances, from time to time, gaps are created in the prices of the shares on those Stock Exchanges. It is by no means certain that these gaps will shrink. Investors in the Company's securities, and also, under certain circumstances, the Company, are liable to sustain damages as a result of these gaps.	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				
	1-3/2009	**4-6/2009**	**7-9/2009**	**10-12/2009**	**1-12/2009**
Revenues	17,723	19,494	20,910	25,991	84,118
Cost of revenues	11,822	12,841	13,914	16,808	55,385
Gross income	5,901	6,653	6,996	9,183	28,733
Development expenses, net	514	419	458	725	2,116
Sales and marketing expenses	2,860	2,580	2,208	2,248	9,896
General and administrative expenses	1,745	1,388	1,674	1,806	6,613
Income from ordinary operations	782	2,226	2,656	4,404	10,108
Net financing income (expenses)	2,636	(695)	(1,454)	(2,176)	(1,689)
Income after financing	3,418	1,571	1,202	2,228	8,419
Other income	-	-	-	63	63
Income (loss) for period	3,418	1,571	1,202	2,291	8,482

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 mechanized distribution centers. The Company's PLCs are 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 a view to developing additional markets for the services of the Systems Department. Via its subsidiary Unitronics House Management & Maintenance (2003) Ltd., the Company also engages in the management and maintenance of Unitronics House; the income from this activity is immaterial.

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

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

Since mid-2008 and throughout the reported period, global markets have been undergoing a financial crisis. Events linked to this financial crisis have affected demand for the Company's products and services, its rate of growth, the capital market in Israel in general, including the liquidity, business standing and capacity of corporations in Israel to obtain financing for their current and long-term operations. Aside from the global financial crisis, Israel's economy has been subject to a number of other developments over the past several 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 marketable securities; hence the impact on its operating results mainly in the second half of 2008. From the beginning of the reported period a profit from marketable securities has been registered. 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 thereto, under the qualitative report on market risks in the Board of Directors' report below.

Fluctuations in exchange rates of major foreign currencies against the NIS impact on several planes as detailed in Section 2.3 below. The second half of 2008 witnessed an impact mainly on the Company's financing expense and revenue items, largely due to erosion of the Company's revenues from marketable securities linked to these currencies; hence the impact on the Company's operating results during this period. Said erosion has decreased since the start of the reported period. 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 thereto, under the qualitative report on market risks 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 bonds (Series 2), which are linked to the Consumer Price Index - as per the Company prospectus from 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 thereto, under the qualitative report on market risks 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.

<u>Renewal of director and officer liability insurance policies</u>

The Company holds a director and officer liability insurance policy renewable each year with the approval of the Company's management, which was authorized by the General Meeting of Company shareholders on April 12, 2005 to renew said liability insurance policy from time to time under similar terms and conditions for additional terms of up to 18 months each time (for further details see section 4.7.8 of this report).

On March 4 2010, the Audit Committee and the Company Board of Directors approved, once again, renewal of the director and officer liability insurance policy for an additional 18-month term, according to the conditions of the framework transaction (for further details see Section 4.7.8 of this report and immediate report of transaction with controlling shareholder or Board member not requiring approval by the General Meeting, dated March 4 2010, 2010, Ref. No. 2010-01-404205).

<u>Buyback of Company bonds (Series 1) and bonds (Series 2)</u>

On January 8, 2009, the Company Board of Directors approved buyback off the stock exchange and not from interested parties of 300,000 bonds (Series 1) at a price of 9,065 agorot in exchange for NIS 272 thousand, as well as 7,100,000 bonds (Series 2) at a price of 7,445 agorot in exchange for NIS 5,286 thousand. (For further details see immediate report on event or matter outside the ordinary course of corporate business, dated January 8, 2009, Ref. No. 008778-01-2009, as well as Section 1.19.4 of this report.)

Subsequent to the aforementioned purchases and the resultant cancellation and delisting, there remain in circulation NIS 17,200,000 par value bonds (Series 1), and 26,900,000 par value bonds (Series 2) (for further details see immediate report on changes to corporate securities, dated January 20, 2009, Ref. No. 008772-01-2009).
For further details regarding buyback of Company shares see continuation of this section, as well as Section 1.4.2 above.

Change in interest calculation method for bonds (Series 1) and payment of interest differentials

The Company invited on December 7, 2008, by publication in two Hebrew-language newspapers in Israel and by immediate report, those holding its bonds on certain dates to present to the Company proof of their bond holdings and the number of such bonds held on said dates, to provide an address at which they wish to receive the payment, all within 60 days from the publication date of the immediate report, in order to receive the interest differentials to which they are entitled under the new calculation (for further details see immediate report on event or matter outside the ordinary course of corporate business, dated December 7, 2008, Ref. No. 345444-01-2008).

Following said invitation, applications were received from holders of the aforementioned bonds or representatives thereof, entitling their holders to payment of interest differentials as aforesaid in the aggregate amount of NIS 29,123. To date, the actual amount in interest differentials paid out to holders of the aforesaid bonds who responded to the invitation is NIS 28,908.

(For further details, see Section 1.19.4 above.)

Signing of an agreement for the construction of an automated warehouse in Israel

On May 6, 2009, the Company signed an agreement for the construction of an automated warehouse in Israel (hereinafter: the "Agreement").

On December 17, 2009, the Company signed with the same customer an agreement for the construction of an automated collection system, forming an integral part of the automated warehouse described above.

(For further details, see Sections 1.10.7.2 and 1.10.9 above, supplementary report to immediate report on event or matter outside the ordinary course of corporate business, dated May 12, 2009, Ref. No. 107643-01-2009, and immediate report on event or matter outside the ordinary course of corporate business, dated December 17, 2009, Ref. No. 323901-01-2009.)

Payment for bonds (Series 1) and expiration of options

On May 24, 2009, the Company made the third payment of principal and interest on bonds (Series 1), issued by the Company in 2004 pursuant to the Company's prospectus published May 12, 2004. (For further details, see immediate report on payment of principal on bonds (Series 1) from May 24, 2009, Ref. No. 118548-01-2009, and Section 1.4.7 above).

In addition, 10,000 Company options expired on May 31, 2009 (for further details, see immediate report on change in Company's issued capital from May 31, 2009, Ref. No. 2009-01-127875, and Section 1.4.7 above).

Subsequent to the aforementioned payments, there remain in circulation bonds (Series 1) convertible into 955,556 Company shares under terms and conditions of said bonds.

First principal payment on bonds (Series 2)

On August 25, 2009, the Company paid the first payment (out of five) of the principal and interest of the CPI-linked bonds issued by the Company in 2006 (whose terms and conditions are set out in the Company's prospectus from August 16, 2006) totaling 5,380,000 par value bonds (Series 2). Following this payment, there remain in circulation 21,520,000 par value bonds (Series 2). (For further details, see Section 1.4.4 above.)

Controlling shareholders' waiver of 15% of salary

On May 21, 2009, the Audit Committee and Company Board of Directors resolved to approve a unilateral waiver in respect of both Mr. Haim Shani (controlling shareholder and Chairman of the Board) and Ms. Bareket Shani (Mr. Shani's wife, serving also as a Board member), of 15% of each of their respective salaries and fringe benefits for a period of 6 months, following which the salary and fringe benefits returned to their pre-waiver level.

(For further details regarding the employment terms of Mr. Shani and Ms. Shani and said waiver, see Sections 1.14.4 and 2.4.7 of this report, as well as the immediate report on a transaction with a controlling shareholder or director not requiring the approval of a General Meeting, dated May 21, 2009, Ref. 117396-01-2009.)

Collective agreement

In the framework of the Company's handling of the adjustment of its workers' employment terms to the latest amendments in the labor laws, the applicability of the extension order in the metals, electricity and electronics industry from 2004, to Company employees has come under review and been found to be inapplicable (for further details regarding Company employment terms, see Section 1.14.3 above).

Interest on principal of bonds (Series 1) for the eleventh period

On the first day of each interest period for bonds (Series 1), on which the Company publishes the interest rate for the period, the LIBOR interest rate quoted in the Source (for determining the interest, based on the bonds' terms and conditions) is not up-to-date for that day, but for several days earlier; thus the Company in fact publishes at the start of the period an interest rate which is not up-to-date for that day. The up-to-date interest rate for the first day is reported in the Source subsequent to the respective first day of each period, in an amending report put out by the Company, if indeed there has been a change in the interest rate (for further details, see section 1.19.4 of this report).

Therefore, on August 20, 2009 the Company issued an amending report to the report published on May 24, 2009 (Ref. 118554-01-2009), whereby the interest rate on the principal amount of bonds (Series 1) for the eleventh period is 1.8506%, and the LIBOR interest rate is 1.2013%, and not as stated in the original report (for further details see immediate report on event or matter outside the ordinary course of the corporation's business from August 20, 2009, Ref. No. 203094-01-2009).

<u>Agreement of lease from controlling shareholder</u>

On May 21, 2009, the Company's Audit Committee and Board of Directors approved, subject to the approval of the General Meeting of the Company's shareholders, the signing of a new lease agreement with a company controlled by Mr. Haim Shani, the controlling shareholder in the Company, serving as Chairman of the Board and Company CEO, and Ms. Bareket Shani, Mr. Shani's wife who serves as a director and human resources manager in the Company, for the lease of 936 sq.m. of office space in the "Unitronics House," as well as 20 parking spaces. On July 29, 2009, the General Meeting of the Company's shareholders approved said lease transaction.

(For further details regarding the transaction's approval by the Board of Directors, the Audit Committee and the General Meeting of the Company's shareholders, and concerning the transaction's terms and conditions and the grounds for its approval, see Sections 1.12.2 and 4.8.2 of this report.)

<u>Annual report of trustee for bonds</u>

On November 11, 2009, 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 bonds (Series 2), Hermetic announced that the annual report of trustee actions carried out by the trustee in the period between July 9, 2008 and October 5, 2009, is available for viewing by holders of bonds (Series 2) at the trustee's office (for further details see immediate report regarding annual report of trustee for bonds (Series 2) dated November 11, 2009, Ref. No. 279951-01-2009).

<u>Signing of an agreement for the construction of automated parking lot in Mexico</u>

On December 1, 2009, the Company signed an agreement for the construction of an automated parking lot in Mexico City, Mexico. (For further details see Section 1.10.7.2 above.)

<u>Buyback of Company shares</u>

On December 7, 2009, the Company's Board of Directors approved the adoption of a plan for the buyback of Company shares (hereinafter: the "First Plan"). (For further details see Sections 1.4.2 above and 4.16.4 below.)

On March 4, 2010, the Company's Board of Directors approved the adoption of another share buyback plan in lieu of the First Plan (hereinafter: the "Second Plan"). (For further details see Sections 1.4.2 above and 4.16.5 below.)

As of the reporting date, the Company holds a total of 1,079,823 shares purchased as aforementioned (out of 11,676,546 Ordinary Shares in the Company's issued share capital), including shares purchased starting August 2005 from time to time, in the framework of trading on the Tel Aviv Stock Exchange and in the framework of trading on the EuroNext Stock Exchange in Belgium. For as long as the Company holds these shares, they constitute "dormant shares" as defined in the Companies Law, 5759-1999. For further details regarding these purchases, see Section 1.4.2 of this report, as well as immediate reports issued by the Company from time to time concerning these purchases, starting from August 18, 2005.

Reappointment of Directors

On December 10, 2009, the General Meeting of Company shareholders resolved to reappoint Mr. Moshe Baraz as an outside director in the Company for an additional three-year term. Likewise, the General Meeting resolved to reappoint Mr. Zvi Livne as a director in the Company (Category B) for an additional term until the convening of the Company's Annual General Meeting for 2012 (for further details, see immediate report on the results of the General Meeting held on December 10, 2009, Ref. No. 315873-01-2009).

Changes in holdings of interested parties

As a result of the aforementioned bond payments, Company share buyback, expiration of employee options, and payment of the principal amount of bonds (Series 1), all as stated above, the Company stake of Mr. Haim Shani, Company CEO and controlling shareholder, has increased. Mr. Shani's stake after these changes, as of the release of this report is: 57.94% of capital and 57.94% of voting rights (and fully diluted after the changes: 49.66% of capital and 49.66% of voting rights). (For further details see immediate report on the holdings of interested parties and senior officers, dated February 11, 2010, Ref. No. 381603-01-2010).

2.2.3 Financial position

Assets

Total assets on the Company's consolidated statement of financial position as of December 31, 2009 remained essentially unchanged, amounting to NIS 105,407 thousand, compared to NIS 102,421 thousand as of December 31, 2008.

Total cash, cash equivalents and marketable securities decreased from NIS 42,259 thousand as of December 31, 2008, to NIS 34,947 thousand as of December 31, 2009. This decrease stems largely from the repayment of convertible bonds (Series 1), repayment of bonds (Series 2), and buyback of bonds (Series 2) by the Company in the course of 2009, net of customer advances from the Systems Sector.

Trade and other receivables increased from NIS 11,295 thousand as of December 31, 2008 to NIS 13,384 thousand as of December 31, 2009, primarily due to an increase in receivables from the Systems Sector.

Inventory amounted to NIS 11,953 thousand as of December 31, 2009, down from NIS 13,326 thousand as of December 31, 2008. It is the Company's belief that ongoing streamlining of the provisioning processes and inventory management contribute to the improvement in this item. The Company regularly holds 70-120 days' worth of inventory of components and raw materials, which are intended for forecasted requirements. In addition, the Company holds a finished goods inventory to allow for the supply of current orders for 35-60 days. For further details regarding raw materials, suppliers and inventory, see Chapter A (Section 1.9.21.1) above.

The work-in-process inventory stood at NIS 7,835 thousand as of December 31, 2009, stemming largely from work in process costs in the Systems Sector and reflecting a state of project execution progress at the time of reporting only.

Net fixed assets as of December 31, 2009, amounted to NIS 18,847 thousand, compared to NIS 18,208 thousand on December 31, 2008. This stability stems primarily 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, 2009 amounted to NIS 14,737 thousand, compared to NIS 13,781 thousand as of December 31, 2008. This increase is primarily due to the registration of Company’s development assets , for which development costs met the conditions for recognition as intangible assets, less current depreciation of said assets.

Liabilities

Total short-term bank credit, as well as current maturities of bonds (Series 1) and bonds (Series 2) amounted to NIS 15,292 thousand as of December 31, 2009, compared to NIS 16,941 thousand as of December 31, 2008. This amount is largely due to current maturities of convertible bonds (Series 1) maturing in May 2010, as well as to current maturities of bonds (Series 2) maturing in August 2010 and to current maturities of long-term loans.

Trade payables increased, amounting as of December 31, 2009 to NIS 10,755 thousand, compared to NIS 9,545 thousand as of December 31, 2008. This increase is mainly due to an increase in trade payables for the System Sector in the reported period.

Other payables amounted, as of December 31, 2009, to NIS 24,751 thousand, compared to NIS 13,029 thousand as of December 31, 2008. The increase in this item is largely due to an increase in customer advances from the Systems Sector.

Embedded derivatives totaled NIS 1,501 thousand as of December 31, 2009, compared to NIS 215 thousand as of December 31, 2008. This increase stems primarily from a decline in the euro exchange rate against the shekel in the reported period. See Note 27E in the financial statements (Chapter C in this report).

Total non-current liabilities as of December 31, 2009 amounted to NIS 23,943 thousand, compared to NIS 41,973 thousand as of December 31, 2008. The change is primarily due to the third payment of convertible bonds (Series 1) amounting to NIS 8,600 thousand in May 2009, first payment of bonds (Series 2) totaling NIS 5,858 thousand in August 2009, buyback of bonds (Series 2) in January 2009.

Company working capital amounted to NIS 16,332 thousand as of December 31, 2009, compared to NIS 27,548 thousand as of December 31, 2008. The decrease is primarily due to partial redemptions of convertible bonds (Series 1) and bonds (Series 2), as well as buyback of bonds (Series 2), less net income recorded for the period as detailed below. For further details on working capital see Chapter A (Section 1.9.21 above).

Shareholders' equity for the Company as of December 31, 2009 totaled NIS 29,065 thousand, compared to NIS 20,700 thousand as of December 31, 2008. The increase is primarily due to the profit recorded for the period, as explained below.

2.2.3.1 Analysis of financial position by operating segment

As set forth above, the Company's commercial operations are carried out primarily by two business departments, the Products Department and Systems Department. For further details concerning the Company's operating segments, see Chapter A (Sections 1.8, 1.9, 1.10 and 1.11) above. At the same time, the Company engages, through the subsidiary Unitronics House Management & Maintenance (2003) Ltd., in the management and maintenance of Unitronics House.

Products Sector

Total assets used by the products sector as of December 31, 2009 amounted to NIS 21,667 thousand, compared to NIS 23,184 thousand as of December 31, 2008. This decrease stems largely from a decrease in the inventory used in this sector.

Total liabilities for the products sector remained essentially unchanged as of December 31, 2009, amounting to NIS 9,767 thousand, compared to NIS 9,185 thousand as of December 31, 2008.

Systems Sector

Total assets used by the systems sector as of December 31, 2009, amounted to NIS 13,356 thousand, compared to NIS 3,813 thousand as of December 31, 2008. The increase in this item is primarily due to growth of the work-in-process inventory used in this sector.

Total liabilities for the systems sector as of December 31, 2009 amounted to NIS 22,267 thousand, compared to NIS 9,748 thousand as of December 31, 2008. The increase in this item is largely due to higher customer advances in this sector.

Unitronics House Management and Maintenance

Total assets used by Unitronics House Management & Maintenance as of December 31, 2009 remained essentially unchanged, standing at NIS 38 thousand, compared to NIS 58 thousand as of December 31, 2008.

Total liabilities for Unitronics House Management & Maintenance as of December 31, 2009 remained essentially unchanged, amounting to NIS 131 thousand, compared to NIS 86 thousand as of December 31, 2008.

Assets and liabilities not assigned to a specific operating segment

Total assets not assigned to any particular operating segment as of December 31, 2009, amounted to NIS 70,346 thousand, compared to NIS 75,371 thousand as of December 31, 2008. The decrease in this item is primarily due to a decrease in cash, cash equivalents and marketable securities as explained above.

Total liabilities not assigned to any particular operating segment as of December 31, 2009, totaled NIS 44,177 thousand, compared to NIS 62,702 thousand as of December 31, 2008. The decrease in this item is primarily due to redemption of convertible bonds (Series 1), redemption of bonds (Series 2), and buyback of bonds (Series 2) by the Company in the course of 2009.

2.2.4 Operating Results

Revenues

Company revenues for the year ended December 31, 2009 showed moderate growth of 5%, totaling NIS 84,118 thousand, compared to NIS 79,720 thousand in 2008. The Company believes that the moderate growth in revenues stems primarily from higher revenues in the Systems Sector, net of decreased revenues in the Products Sector as explained below.

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

Cost of revenues

The cost of revenues for the year ended December 31, 2009 amounted to NIS 55,385 thousand (66% of revenues for the period), compared to NIS 53,756 thousand for the year ended December 31, 2008 (67% of revenues for the period). The increase in cost of revenues is primarily due to the increase in Company revenues, as explained above, net of the decrease in cost of revenues rate stemming from a change in gross profit rates, as detailed below.

Gross income

Total gross income for the year ended December 31, 2009 amounted to NIS 28,733 thousand (34% of revenues for the period), compared to NIS 25,964 thousand for the year ended December 31, 2008 (33% of revenues for the period).

Gross profit rates in the Products Sector are higher than those in the Systems Sector. The Company believes that changes in the mix of revenues from the different operating segments, as well as increased gross profit margins in the different operating segments, as detailed below, are the major reasons for the changes in gross profit and in the rates thereof during the reported period. For further details on gross income in each operating segment separately, see the analysis of business results by operating segment below. For further details regarding the profitability of products and services, see Chapter A (Sections 1.9.9 and 1.10.8) above.

Net development expenses

Net development expenses for the year ended December 31, 2009 remained essentially unchanged, amounting to NIS 2,116 thousand, compared to NIS 1,617 thousand for the year ended December 31, 2008. This item does not include development costs that fulfill conditions entitling them to recognition as an intangible asset.

Development expenses in the reported period reflect the adjustments made in the reported period in the development of technologies and products. For further details regarding new products and the Company's development activities, see Chapter A (Section 1.9.18) above. At the end of the reported period and thereafter, the Company adjusted staffing of development teams through manpower recruitment, to suit changes in Company operations, as detailed in this report, in order to enable implementation of its business plans. The Company anticipates further growth in this item in the coming quarters[1].

Sales and marketing expenses

Sales and marketing expenses for the year ended December 31, 2009 amounted to NIS 9,896 thousand (12% of revenues), compared to NIS 12,449 thousand for the year ended December 31, 2008 (16% of revenues).

The decrease in sales and marketing expenses in the reported period reflects an adjustment for the decrease in Company revenues from the Products Sector. These expenses included, inter alia, new market development efforts in the Systems Sector outside of Israel, visits to

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[1] The information concerning the anticipated growth in R&D expenses constitutes forward-looking information. The main data used as a basis for this information are the Company development plans, as described in Chapter A (Section 1.12), the stages at which Company development stands as of the report date, and the need for continued substantial investments in R&D expenses for the implementation of Company plans. The main factors which may result in this information failing to materialize are changes in Company development plans due to causes beyond the Company's control (e.g. market needs and consumer preferences, competitors' developments, prices of raw materials and services needed by the Company), lack of a budget for financing expenses required for continued development in general, or on the required scope, as well as possible technological difficulties associated with the completion of the development stages according to these plans.

and participation in trade shows, as well as other marketing activities in Israel and overseas. For further details on the marketing and distribution activities, see Chapter A (Sections 1.9.12 and 1.10.10) above.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2009 totaled NIS 6,613 thousand (8% of revenues), compared to NIS 5,101 thousand (6% of revenues) for the year ended December 31, 2008.

The increase in general and administrative expenses for the reported period is largely due to an increase in legal services. These expenses included, among others, necessary expenses for support and management of Company operations, including ongoing expenses for professional consulting and legal services, and 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.

Profit from Normal Operation

Total profit from normal operation for the year ended December 31, 2009 amounted to NIS 10,171 thousand (12% of revenues), up from NIS 6,797 thousand for the year ended December 31, 2008 (8.5% of revenues).

In the Company's estimation, the increase in operating income and the rate thereof are primarily due to the increase in the Company's gross income, owing to growth in Company revenues for the reported period, net of adjustments made to sales, marketing and administrative expenses.

Net financing expenses and revenues

Net financing expenses for the year ended December 31, 2009 amounted to NIS 1,689 thousand, compared to NIS 9,743 thousand for the year ended December 31, 2008.

The decrease in this item compared to the corresponding period in 2008, in the Company's opinion, stems largely from the recording of one-time financing income, resulting from the buyback of bonds (Series 2), the decreased erosion of Company revenues derived from marketable securities (compared to the corresponding period), net of the interest components of Company bonds, mainly bonds (Series 2) issued under the August 2006 prospectus, as well as financing costs in respect of long-term credit.

Starting May 2004 the Company’s exposure to fluctuations in the exchange rate of the shekel against the dollar increased, following the issuance of convertible bonds (Series 1) as per the Company’s May 2004 prospectus, which are linked to the dollar 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. Aside from this exposure to exchange rate fluctuations, there is an interest component in respect of this issuance and accordingly the Company estimates that this item will be affected by said factors in the coming quarters[2].

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

Income (loss) for the year

For the year ended December 31, 2009, the Company recorded an income of NIS 8.5 million, compared to a loss of NIS 2.9 million for the year ended December 31, 2008.

The transition to an income in the reported period, compared to the corresponding period in 2008, is primarily due to an increase in Company revenues and a decrease in financing expenses, 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 profit 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, 2009, comprised 68% of total Company revenues for that year, whereas revenues from systems for the same period accounted for 31% of total revenues. 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 accounted for 18% of total revenues. The Company believes that the increase in Company revenues stems largely from the growth in revenues from the systems sector for, as explained below, net of the effects of the financial crisis on global markets as well as on the Israeli market, as detailed in Section 2.2.2 above.

Products Sector

Total revenues from the products sector for the year ended December 31, 2009 amounted to NIS 57,496 thousand, compared to NIS 64,418 thousand for the year ended December 31, 2008. The 10% decrease in the reported period, the Company believes, is due to effects of the financial crisis on global markets. The Company has yet to return to the product selling rate typical of recent years (for further details see Section 1.9.25 above).

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[2] The information regarding exposure to exchange rate fluctuations is forward-looking information. The main data on which this information is based is the linkage of bonds (Series 1) to the USD exchange rate, based on a rate 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 rates is forward-looking information. The main data on which this information is based is the linkage of bonds (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 rates.

Gross profit rate for the products sector in the year ended December 31, 2009 was 53%, compared to 50% for the year ended December 31, 2008. Relatively high margins for certain transactions coupled with streamlining processes carried out during the reported period are the main reasons for changes in the gross profit margins in the course of the reported period.

Product sector results for the year ended December 31, 2009 remained essentially unchanged, totaling NIS 22,329 thousand, compared to NIS 22,348 thousand for the year ended December 31, 2008.

Systems Sector

Total revenues from the Systems Sector for the year ended December 31, 2009 amounted to NIS 26,133 thousand, compared to NIS 14,597 thousand for the year ended December 31, 2008. The 80% growth in the reported period compared to the corresponding period a year earlier is primarily the result of a surge in customer orders for the construction of logistics systems by the Company's Systems Department in the reported period, coupled with the actual progress rate of construction of such systems.

The gross profit from the Systems Sector for the year ended December 31, 2009 amounted to NIS 1,860 thousand, compared to a gross loss of NIS 4,052 thousand for the year ended December 31, 2008. The Company believes that this change is largely due to increased revenues from this sector, as explained above.

Systems Sector results for the year ended December 31, 2009 recorded a change in trend, posting a small profit of NIS 29 thousand, compared to a loss of NIS 6,597 thousand for the year ended December 31, 2008.

The profit recorded by the segment in the reported period is due, according to the Company, to increased revenues from this segment in the reported period, as explained above, net of operating 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 marketable securities as of December 31, 2009 amounted to NIS 34,947 thousand, compared to NIS 42,259 thousand as of December 31, 2008. The decrease is primarily due to redemption of convertible bonds (Series 1) and redemption of bonds (Series 2) by the Company in 2009, net of customer advance receipts from the Systems Sector.

Cash flow from operating activities for the year ended December 31, 2009 amounted to a positive cash flow of NIS 18,231 thousand, compared to a positive cash flow of NIS 10,661 thousand for the year ended December 31, 2008. The positive cash flow in the reported period stems largely from a profit recorded for the reported period, an increase in accounts payable and accruals, net of work-in-process inventory.

Cash flow from investing activities for the year ended December 31, 2009 amounted to a positive cash flow of NIS 5,337 thousand, compared to a negative cash flow of NIS 369 thousand for the year ended December 31, 2008. The positive cash flow in the reported period is primarily due to sale of marketable securities, less investment in fixed assets and investment in development assets.

Cash flow from financing activities for the year ended December 31, 2009 amounted to a negative cash flow of NIS 21,311 thousand, compared to a negative cash flow of NIS 11,717 thousand for the year ended December 31, 2008. The negative cash flow in the reported period is primarily due to redemption of convertible bonds (Series 1), redemption of bonds (Series 2), early redemption of bonds (Series 2), as well as loan repayment.

As of December 31, 2009, the Company had credit facilities for operating activities, amounting to NIS 18.5 million. As of December 31, 2009, a total sum of NIS 18 million out of the aforementioned credit facilities was utilized for issuance of guarantees to secure Company obligations in projects carried out by the Systems Department. For details regarding average customer and supplier credit levels, see Sections 1.9.21.3 and 1.10.18.2 above. The Company believes that differences between credit levels extended to customers and credit levels granted by suppliers are necessary for supporting Company growth and business operations.

2.3 Exposure to market risks and management thereof

The Company CEO, Mr. Haim Shani (for details see Section 4.11A below) and Company CFO, Mr. Yair Itscovich (for details see Section 4.12B below) are the persons responsible for market risk management at the Company. 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 to the shekel and to the euro, for the reasons set forth below:

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

The Company's assets which are exposed to exchange rate fluctuations consist primarily of cash and cash equivalent 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 marketable securities linked to foreign currency.

Current liabilities exposed to exchange rate fluctuations include current maturities of long-term loans, mostly linked to foreign currency, as well as debts 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 euros.

Most of the Company's operations are conducted in foreign currency, or in shekels 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 euros. In the systems segment, most of the Company's revenues are generated from sales stated in euros or linked to the euro exchange rate.
Raw materials required for the manufacture of the Company's products mainly include various electronic and mechanical components, and 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 bonds (Series 2), linked to the Israeli consumer price index, with a base index of 188.1 (1993 average). Thus, since August 2006 the Company’s exposure to CPI fluctuations has increased. Developments and changes in Israel’s economy, including devaluation and inflation, could give rise to fluctuations in the Consumer Price Index, in turn, affecting Company financing income/expenses.

Risk related to marketable securities

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

Interest risk

The Company has various loans in connection with the acquisition of rights in the Company's facilities at Airport City, convertible bonds (Series 1) issued by the Company pursuant to 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 market risk management policy

The Company's policy is to try reducing, 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 on dollar-linked convertible bonds (Series 1)).

To this end, the Company examined, by consulting capital market professionals shortly after 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 in respect of the convertible bonds (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 bonds (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 bonds (Series 1) amounting to NIS 8,750 thousand, according to the base rate of NIS 4.59 per USD (whereas the representative USD exchange rate on the payment date was only NIS 3.9910 per USD). Then, on May 23, 2008, the Company repaid a further 25% of total par value principal of said bonds, amounting to NIS 8,750 thousand according to the base rate of NIS 4.59 per USD (whereas the representative USD exchange rate on the payment date was just NIS 3.3330 per USD). Yet, a further 25% of total par value principal of said bonds was repaid by the Company on May 24, 2009, amounting to NIS 8,750 thousand, according to the base rate of NIS 4.59 per USD (whereas the representative USD exchange rate on the payment date was just NIS 3.960 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 convertible bonds (Series 1), was deemed by the Company to be financially inadvisable due to the high cost associated therewith.

Beside the activities specified above, market risk management 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 bonds (Series 1) and bonds (Series 2). Such a review is conducted by the Company Board of Directors on a quarterly basis, concurrent with the approval process of the financial statements for the particular quarter being released by the Company.

2.4 Consolidated linkage basis reports and sensitivity tests

Consolidated linkage basis report as of December 31, 2009

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 Thousands				
Assets							
Cash and cash equivalents	2,541	-	7,499	6,788	-	-	16,828
Marketable securities	5,792	11,280	-	1,047	-	-	18,119
Trade receivables and other income receivable	3,492	-	6,222	3,670	-	-	13,384
Other accounts receivable	425	-	-	36	-	151	612
Embedded derivatives	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	11,953	11,953
Work-in-progress inventory	-	-	-	-	-	7,835	7,835
Long-term deposits	-	-	-	-	-	159	159
Fixed assets, net	-	-	-	-	-	18,847	18,847
Prepaid expenses in respect of operational lease, net	-	-	-	-	-	2,933	2,933
Intangible assets, net	-	-	-	-	-	14,737	14,737
Total assets	12,250	11,280	13,721	11,541	-	56,615	105,407
Liabilities							
Current maturities of loans	-	72	502	412	-	-	986
Current maturities of bonds	-	5,897	-	8,409	-	-	14,306
Suppliers and service providers	9,082	-	165	1,508	-	-	10,755
Option warrants	-	100	-	-	-	-	100
Embedded derivatives	-	-	1,501	-	-	-	1,501
Accounts payable and accruals	8,341	-	-	185	-	16,225	24,751
Long-term loans	-	383	3,515	2,882	-	-	6,780
Convertible bonds	-	-	-	-	-	-	-
Bonds	-	16,226	-	-	-	-	16,226
Liabilities in respect of employee benefits, net	-	-	-	-	-	937	937
Total liabilities	17,423	22,678	5,683	13,396	-	17,162	76,342
Balance sheet total, net	(5,173)	(11,398)	8,038	(1,855)	0	39,453	29,065

Consolidated Linkage Basis Report 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 Thousands				
Assets							
Cash and cash equivalents	5,483	-	4,718	4,358	-	-	14,559
Marketable securities	12,531	12,576	-	2,593	-	-	27,700
Trade receivables and other income receivable	4,195	-	4,076	3,024	-	-	11,295
Other accounts receivable	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
Prepaid expenses in respect of operational lease, net	-	-	-	-	-	3,002	3,002
Intangible 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 bonds	-	-	-	7,896	-	-	7,896
Bonds	-	26,046	-	-	-	-	26,046
Liabilities in respect of employee benefits, net	-	-	-	-	-	803	803
Total liabilities	16,436	33,333	5,033	21,778	-	5,141	81,721
Balance sheet total, net	5,873	(20,757)	3,761	(11,715)	0	43,538	20,700

Sensitivity Tests of Financial Instruments as of December 31, 2009

As of the financial position statement date, the Company conducted 4 sensitivity tests in respect of changes within an upper and lower range of 5% and 10% in market factors.
The market tests were carried out according to a set model.

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

	Income (loss) due to change, NIS in thousands		NIS in thousands	Income (loss) due to change, NIS in thousands	
	-10% NIS 3.40 per $	-5% NIS 3.59 per $	Fair Value NIS 3.775 per $	+5% NIS 3.96 per $	+10% NIS 4.15 per $
Cash and cash equivalents	-679	-339	6,778	339	679
Marketable securities	-105	-52	1,047	52	105
Trade receivables and other income receivable	-367	-184	3,670	184	367
Other accounts receivable	-4	-2	36	2	4
Short-term credit and current maturities of long-term liabilities (*)	41	21	-8,821	-21	-41
Suppliers and service providers	151	75	-1,508	-75	-151
Accounts payable and accruals	19	9	-185	-9	-19
Long-term loans	288	144	-2,882	-144	-288
Total	-656	-328	-1,865	328	656

* For current maturities of convertible bonds issued at a minimum exchange rate of NIS 4.59 per USD
** The convertible bonds were issued at a minimum 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 exchange rate

	Income (loss) due to change, NIS in thousands		NIS in thousands	Income (loss) due to change, NIS in thousands	
	+10% NIS 5.99 per €	+5% NIS 5.71 per €	Fair Value NIS 5.442 per €	-5% NIS 5.17 per €	-10% NIS 4.9 per €
Cash and cash equivalents	750	375	7,499	-375	-750
Trade receivables and other income receivable	622	311	6,222	-311	-622
Short-term credit and current maturities of long-term liabilities	-50	-25	-502	25	50
Suppliers and service providers	-17	-8	-165	8	17
Embedded derivatives	-150	-75	-1,501	75	150
Long-term loans	-352	-176	-3,515	176	352
Total	803	402	8,038	-402	-803

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 thousands		NIS in thousands	Income (loss) due to change, NIS in thousands	
	+10% 226.81 points	+5% 216.50 points	Fair Value 206.19 points	-5% 195.88 points	-10% 185.57 points
Marketable securities	1,128	564	11,280	-564	-1,128
Short-term credit and current maturities of long-term liabilities	-597	-298	-5,969	298	524
Option deeds	-10	-5	-100	5	10
Long term loans	-38	-19	-383	19	38
Bonds (***)	-1,623	-811	-16,226	811	1,424
Total	-1,140	-569	-11,398	569	868

*** Bonds issued at a base 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 marketable 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	586	293	5,858	-293	-586
Local - Corporate	1,226	613	12,261	-613	-1,226
Total	1,812	906	18,119	-906	-1,812

Aspects of Corporate Governance

2.5 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 Law and provisions of Section 8 of the Internal Audit Law, 5752-1992 (hereinafter: "**Internal Audit Law**"). The credentials that qualify CPA Horovitz for his position as the Company's internal auditor are his education as a CPA and jurist, and his involvement in auditing as an accountant and an internal auditor at public companies since 1991. The internal auditor was appointed after the Audit Committee and Board of Directors reviewed his experience and track record in internal auditing of other public companies considering, among other things, the type and size of the company as well as the scope and complexity of its operations.

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

(b) CPA Horovitz is not a Company employee and provides internal auditing services to the Company as an external entity via Baker Tilly Israel, of 11 Menahem Begin Street, Tel Aviv (Company ID 557383031) which has an internal auditing department, 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, while the Chairman of the Audit Committee is the professional authority who directs the internal auditor with regard to the subjects for 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 things, 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 Company's Audit Committee and Board of Directors; and (3) the size of the Company, its organizational structure and the nature and scope of its business activities. The Audit Committee and Board of Directors discuss and approve the annual work plan and the issues to be examined by the internal auditor, issues that are subsequently reviewed by the internal auditor as part of his annual work. The internal auditor may, at his discretion, decide whether to deviate from the original plan in order to review data he came across during 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 will 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 subsidiary of the Company (for further details see section 1.21.1 above).

(f) The internal auditor and the staff working under him in internal auditing for the Company during the years 2007, 2008 and 2009 were employed between 85-175 hours each year. The Board of Directors believes that this amount of time is in line with the activity reviewed by the auditor. The auditor is authorized to move hours from one subject to another, and being that his work is regular and ongoing, he may also move hours from one year to the next, to allow for an in-depth and exhaustive coverage of the reviewed subjects, at his discretion. Likewise, the extent of employment of the internal auditor is determined each year following approval of the work plan, 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	2007	2008	2009
Hours invested in internal audit of the Company and investees, regarding their operations in Israel.	175	85	105
Hours invested in internal audit of the Company and investees, regarding their operations overseas.	0	0	0

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

(g) According to his notice to the Company dated February 17, 2005, the internal auditor 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 Institute of Internal Auditors Israel. The Board of Directors believes that the internal auditor meets the requirements stipulated by the above standards, considering his professional skills and qualifications, his period of employment by the Company, his familiarity with the Company and the manner in which he prepares, submits and presents his audit findings 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 constant, independent access to Company information systems, as well as its financial data.

(i) The table below specifies the dates on which a written report on the internal auditor's findings was submitted to the Chairman of the Board of Directors and the Chairman of the Audit Committee, as well as the dates on which a discussion was held at the Audit Committee and/or at the Board of Directors.

Issue	2007 Report	2008 Report	2009 Report
Date of submission of internal auditor’s report	March 5, 2007	July 20, 2008	November 20, 2009
Date of discussion by Audit Committee	March 25, 2007	November 26, 2008	November 26, 2009
Date of discussion by Board of Directors	March 25, 2007	November 26, 2008	November 26, 2009

(j) The Company's Board of Directors 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 by him in 2008 amounted to NIS 17,000, based on an hourly rate of NIS 200. In the Board of Directors' opinion, the compensation of the internal auditor does not influence his professional judgment, considering, among other things, the Board of Directors' impression of his performance of internal auditing at the Company; the level of detail, accuracy and thoroughness of the audit reports submitted by him to date; as well as the amount of his overall income relative to his wages as the Company’s internal auditor.

2.6 Directors having accounting skills: At a meeting of the Company's Board of Directors held on March 18, 2004, it was determined that the proper minimal number of Company directors having accounting and financial skills, taking into consideration, *inter alia*, Company size, type of operations, complexity, etc, would be one director, for as long as the Company's Board of Directors comprises up to six members. Currently, the Company has three Board members with 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. Joel 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).

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

2.8 Disclosure regarding independent auditor's remuneration

The Company's independent auditors are: (1) Amit Halfon, CPA of Ramat Gan, Israel, and (2) Clarke, Snow & Riley LLP of Quincy, MA, USA. Determination of the auditors' fees is based on the required work load for rendering 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 independent auditors.

Below are details on the overall remuneration for the Company's independent auditors in respect of auditing and other services:

Auditor	Company Receiving the Service	Type of Service	2009 NIS in Thousands	2009 Work Hours	2008 NIS in Thousands	2008 Work Hours
Amit, Halfon – CPA, Ramat Gan, Israel	Unitronics (1989) (RG) Ltd.	Auditing services, auditing-related services and tax services	215	1,053	215	997
Clarke, Snow & Riley LLP Quincy, MA, USA	Unitronics Inc.	Auditing services, auditing-related services and tax services	160	189	119	185

Financial Reporting Disclosure Directives

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.

Dedicated Disclosure to Bondholders

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

(1)	Security	Bonds (Series 1)	Bonds (Series 2)
a.	Issue date	May 2004	August 2006
b.	Total par value upon issuance	35,000,000	34,000,000
c.	Par value	8,600,000	21,520,000
d.	Par value in accordance with linkage terms – as of the date of this report	8,600,000	23,590,000
e.	Accumulated interest	29,143	499,710
f.	Fair value as of the date of this report	8,409,000	22,123,000
g.	Stock exchange value	8,548,400	24,554,000
h.	Interest type and description	Six-month LIBOR + 2.5%	6.1% p.a.
i.	Principal payment dates	One installment due May 23, 2010	Remaining four equal annual installments starting August 25, 2010
j.	Interest payment dates	May 23, 2010	On each 25th day of February and August of the years 2010-2013
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 bonds convertible?	Convertible	Not convertible
m.	Is corporation entitled to early redemption?	Not entitled	Not entitled
n.	Is payment of obligation guaranteed in deed of trust?	No	No
(2)	Trustee for bond series with trust company; trustee contact information	Deloitte Touche (Israel) Brightman Almagor Trustees Ltd.; Meital Ben Yosef, Attorney, CPA/David Valiano, CPA 1 Azrieli St, Tel Aviv Telephone: 03-6085452 Fax: 03-6094944	Hermetic Trusteeship (1975) Ltd.; Dan Avnon and/or Merav Ofer-Oren, 113 Hayarkon St, Tel Aviv Telephone: 03-5274867 Fax: 03-5271451 Email: hermetic@hermetic.co.il

(3) Convertible bonds (Series 1) – On May 19, 2004, the Company issued NIS 35,000,000 par value registered bonds (Series 1), maturing (principal) in four equal annual installments on May 23 of each of the years 2007 - 2010 (inclusive), linked (principal and interest) to the representative USD exchange rate (no less than NIS 4.59 per USD) and bearing variable interest at six-month LIBOR + 2.5% per annum. The bonds (Series 1) are convertible into ordinary shares on each trading day through May 9, 2010, except between May 10 and May 23 in each of the years 2007 - 2009, such that each NIS 9.00 par value bonds (Series 1) not redeemed are convertible into one ordinary Company share (subject to adjustments). Bonds (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 obligations under the deeds of trust for bonds (Series 1) and bonds (Series 2); the Company was not in breach of any obligation or condition of a non-technical nature set forth in the deeds of trust, and there was no cause for demanding immediate redemption of the bonds. (For further details of payment of interest differentials for bonds (Series 1), see sections 1.19.4 and 2.2.2 of this report.)

(8) Bonds (Series 1) and bonds (Series 2) are not secured by any lien. As long as the Company has an outstanding principal balance of bonds (Series 1) and bonds (Series 2) in circulation, including linkage differentials and interest thereon, then to secure the repayment thereof, the Company shall avoid creating any further liens on its assets other than the existing ones, in favor of 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, in favor of any person.

2.11 Independent Board members

The Company articles do not incorporate provisions of the Companies Law regarding the number of independent Board members. In a discussion held on this issue, the Board of Directors determined that, given the fact that provisions in the Company articles set a limit of 6 members on the Company Board, and that two of them are external Board members, the Company, in fact, has two independent Board members. Hence, the Board of Directors did not see fit to amend the Company articles.
The Company currently has two independent Board members: Mr. Moshe Baraz and Mr. Joel Sela – both experts with accounting and financial skills.

2.12 Remuneration of senior corporate officers

The Company attaches great importance to the significant, ongoing contribution of the senior officers listed in the table in section 4.7.1 of this report, and believes that there is a direct link 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 vital services, which is in line with customary remuneration at public companies with a similar scope of operations.

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

The Company's financial statements are prepared by the Company CFO. The statements are reviewed (and in relevant cases also audited) by the Company's independent 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 forwarded to members of the Board of Directors, for review prior to and in preparation for the discussion at Board meetings called for this purpose. The Company views its Board of Directors as the entity charged with meta-control of the Company’s financial statements. Members of the Board of Directors and their respective duties in the Company are:

1. Mr. Haim Shani – Chairman of the Board of Directors, Company CEO, and a Board member with professional qualifications.
2. Ms. Bareket Shani – A Board member having professional qualifications, Vice President and Head of Human Resources, member of the Credit and Investment Committee and the Securities Committee of the Company's Board of Directors.
3. Zvi Livne, CPA – Board member having accounting skills and member of the Audit Committee.
4. Joel 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 at the meeting, to review certain aspects of the reports, accounting issues related to the financial statements and the process of review and audit conducted by him at the Company, following which he answers questions directed at him by Board members (together with the Company's CEO and CFO, who answer the questions directed at them). At times, during a Board discussion, comments and/or clarifications are made, as well as requests for additional data, which are subsequently reflected in the financial statements. At the end of the discussion, the financial statements are subject to approval by vote.

2.14 Disclosure of the effectiveness of the corporation internal control

Pursuant to Regulation 9B of the Securities Regulations (Periodic and immediate reports), 1970 (hereinafter the "Regulation"), the Company performed the following activities for implementing the Regulation instructions, concerning internal control of financial reporting and disclosure. A deployment plan has been set, which mapped the processes in which the Company sees it essential for this purpose and Mr. Yair Itzkovitz, the Company's CFO was appointed as responsible for internal control according to the deployment plan. This process is accompanied by consultants, expert in this field.

Processes which the company sees them as essential:

1. The process of preparing the financial statements
2. Enterprise Level Control of the organization (ELC)
3. Control of information systems and computerization.
4. Revenues processing - revenue recognition from projects
5. Development expenses - establishment of assets, capitalization and value depreciation of assets

Buybacks

2.15 On December 7, 2009, the Company Board of Directors approved adoption of a Company share buyback plan. On March 4, 2010, the Company Board of Directors approved adoption of an additional Company share buyback plan, replacing the previous plan (For details see Sections 1.4.2 and 2.2.2 above and 4.16.4 and 4.16.5 below.)

Haim Shani, CEO and Chairman, Board of Directors	Zvi Livne, Board member
March 4, 2010	March 4, 2010

UNITRONICS (1989) (R"G) LTD.

Financial Statements
December 31,2009

Unitronics (1989) (R"G) Ltd.

Financial Statements

December 31, 2009

Table of contents

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

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

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

We have audited the accompanying consolidated statements of financial position of Unitronics (1989) (R"G) Ltd. (hereinafter the "Company"), as at December 31, 2009 and 2008, and the consolidated statements of operations, of shareholders' equity and of cash flows for each of the three years the last of which ended December 31, 2009. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of a subsidiary whose assets constitute 7% and 6% of the total consolidated assets as at December 31, 2009 and 2008, respectively, and whose revenues constitute 18%, 19% and 17% of the total consolidated revenues for each of the three years the last of which ended December 31, 2009. 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, 2009 and 2008, and the results of operations, changes in shareholders' equity and cash flows of them for each of the three years the last of which ended December 31, 2009, in conformity with International Financial Reporting Standards (IFRS) and any disclosures under Israeli Securities Regulations (Annual Financial Statements), 2010.

Amit, Halfon
Certified Public Accountants (Israel)

Ramat-Gan
March 4, 2010

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

	Note	December 31, 2009	December 31, 2009	December 31, 2008
			(in thousands)	
		Convenience translation into EURO, (unaudited) (1)	NIS	
Current assets				
Cash and cash equivalents	3	3,092	16,828	14,559
Marketable securities	4	3,330	18,119	27,700
Accounts receivable -				
Trade	5	2,460	13,384	11,295
Other		111	612	416
Inventory	6	2,197	11,953	13,326
Inventory - work in progress	7	1,440	7,835	-
		12,630	68,731	67,296
Non-current assets				
Long-term deposits		29	159	134
Property and equipment, net	8	3,463	18,847	18,208
Prepaid leasehold rights expenses, net		540	2,933	3,002
Intangible assets, net	9	2,708	14,737	13,781
		6,740	36,676	35,125
		19,370	**105,407**	**102,421**

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

Approved: March 4, 2010

(1) See Note 1F.

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

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

	Note	December 31, 2009	December 31, 2009	December 31, 2008
			(in thousands)	
		Convenience translation into EURO, (unaudited) (1)	NIS	
Current liabilities				
Current maturities of non-current loans	10A	181	986	1,011
Current maturities of bonds and convertible bonds	10B	2,629	14,306	15,930
Accounts payable -				
Trade	11	1,976	10,755	9,545
Other	12	4,549	24,751	13,029
Warrants		18	100	18
Embedded derivatives	27E	276	1,501	215
		9,629	52,399	39,748
Non current Liabilities				
Loans from the banks and others	13	1,246	6,780	7,228
Convertible bonds	14A	-	-	7,896
Bonds	14B	2,982	16,226	26,046
Liabilities for benefits to employees, net	15	172	937	803
		4,400	23,943	41,973
Contingent liabilities, mortgages and guarantees	16			
Shareholders' equity	17			
Share capital		65	352	352
Capital reserve from share-based payments		-	-	326
Share premium		9,294	50,576	50,250
Capital reserve from translation of foreign operations		(137)	(743)	(733)
Company shares held by the company		(579)	(3,150)	(2,931)
Accumulated loss		(3,302)	(17,970)	(26,564)
		5,341	29,065	20,700
		19,370	**105,407**	**102,421**

(2) See Note 1F.

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

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

		For the year ended December 31,	For the year ended December 31,		
		2009	2009	2008	2007
			(in thousands)		
	Note	Convenience translation into EURO, (unaudited) (1)	NIS		
Revenues	25	15,458	84,118	79,720	102,268
Cost of revenues	18	10,178	55,385	53,756	70,865
Gross profit		5,280	28,733	25,964	31,403
Development expenses, net	19	389	2,116	1,617	1,647
Selling & marketing expenses	20	1,819	9,896	12,449	13,567
General & administrative expenses	21	1,215	6,613	5,101	6,576
Capital gain		12	63	-	-
Operating profit		1,869	10,171	6,797	9,613
Financing Income	22A	989	5,380	286	4,695
Financing expenses	22B	1,299	7,069	10,029	8,650
Profit (loss) for the year		1,559	8,482	(2,946)	5,658
Profit (loss) per 1 ordinary share NIS 0.02 par value (NIS)	26	0.142	0.771	(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 comprehensive income

		For the year ended December 31,	For the year ended December 31,		
		2009	2009	2008	2007
			(in thousands)		
	Note	Convenience translation into EURO, (unaudited) (1)	NIS		
Profit (loss) for the year		1,559	8,482	(2,946)	5,658
Other comprehensive income					
Actuarial gain (loss)	15	21	112	(894)	341
Translation of foreign operation		(2)	(10)	(149)	(584)
Other comprehensive income (loss) for the year		19	102	(1,043)	(243)
Total comprehensive income (loss) for the year		1,578	8,584	(3,989)	5,415

(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
Comprehensive income	-	-	-	(584)	-	5,999	5,415
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
Comprehensive loss	-	-	-	(149)	-	(3,840)	(3,989)
Balance at December 31, 2008	352	326	50,250	(733)	(2,931)	(26,564)	20,700
Purchase of company shares by the company	-	-	-	-	(219)	-	(219)
Warrants expiration	-	(326)	326	-	-	-	-
Comprehensive income	-	-	-	(10)	-	8,594	8,584
Balance at December 31, 2009	352	-	50,576	(743)	(3,150)	(17,960)	29,065

	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, 2009	65	60	9,234	(135)	(539)	(4,882)	3,803
Purchase of company shares by the company	-	-	-	-	(40)	-	(40)
Warrants expiration	-	(60)	60	-	-	-	-
Comprehensive income	-	-	-	(2)	-	1,580	1,578
Balance at December 31, 2009	65	-	9,294	(137)	(579)	(3,302)	5,341

(1) See Note 1F.

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

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

	For the year ended December 31,	For the year ended December 31,		
	2009	2009	2008	2007
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	NIS		
Cash flows from operating activities				
Profit (loss) for the year	1,559	8,482	(2,946)	5,658
Adjustments necessary to show the cash flows from operations (Appendix A)	1,791	9,749	13,607	2,201
Cash flows provided by operating activities	3,350	18,231	10,661	7,859
Cash flows from investing activities				
Sale of (investment in) marketable securities, net	2,260	12,298	8,405	(9,030)
Purchase of property and equipment	(434)	(2,364)	(1,191)	(1,997)
Sale of property and equipment	33	180	-	-
Investment in long-term deposits	(31)	(166)	-	(201)
Repayment of long-term deposits	40	218	106	73
Investment in intangible assets	(887)	(4,829)	(7,689)	(8,022)
Cash flows provided by (used in) investing activities	981	5,337	(369)	(19,177)
Cash flows for financing activities				
Repayment of long-term loans	(198)	(1,076)	(1,010)	(1,229)
Repayment of convertible bonds	(1,580)	(8,600)	(10,629)	(10,723)
Early redemption of bonds	(971)	(5,286)	-	-
Early redemption of convertible bonds	(50)	(272)	-	-
Repayment of bonds	(1,077)	(5,858)	-	-
Purchase of company shares by the company	(40)	(219)	(78)	(213)
Cash flows used in financing activities	(3,916)	(21,311)	(11,717)	(12,165)
Translation differences in respect of foreign operations cash balances	2	12	(101)	(338)
Change in cash and cash equivalents	417	2,269	(1,526)	(23,821)
Cash and cash equivalents at beginning of year	2,675	14,559	16,085	39,906
Cash and cash equivalents at end of year	3,092	16,828	14,559	16,085

(1) See Note 1F.

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

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

	For the year ended December 31,	For the year ended December 31,		
	2009	2009	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	1,258	6,844	5,890	4,561
Loss (profit) from marketable securities, net	(499)	(2,717)	2,512	803
Benefit arising from warrants granted	-	-	3	44
Increase (decrease) in liabilities for benefits to employees	45	246	(253)	10
Capital gain	(12)	(63)	-	-
Reevaluation of warrants and conversion option of convertible bonds	15	83	(194)	(2,620)
Exchange rate changes of long-term loans and convertible bonds	303	1,649	1,057	211
Reevaluation of embedded derivatives	236	1,286	215	(103)
Profit from early redemption of bonds	(338)	(1,838)	-	-
Decrease (increase) in accounts receivable - trade	(387)	(2,106)	2,737	2,799
Decrease (increase) in accounts receivable - other	(50)	(273)	38	394
Decrease (increase) in inventory	251	1,364	(426)	774
Decrease (increase) in inventory - work in progress	(1,440)	(7,835)	319	(125)
Increase (decrease) in accounts payable - trade	223	1,213	(3,093)	517
Increase (decrease) in accounts payable - other	2,186	11,896	4,802	(5,064)
	1,791	9,749	13,607	2,201
Appendix B - Additional information				
Cash paid during the year for:				
Interest	483	2,628	4,173	5,376
Taxes on income	20	108	108	108
Cash received during the year for:				
Interest	153	835	1,319	2,480

(1) See Note 1F.

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

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

Note 1 - General

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

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

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

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

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.
The group -	the company and the consolidated companies.

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

As of	Israeli CPI	Exchange rate of one Euro	Exchange rate of one U.S. dollar
	Points (*)	NIS	NIS
December 31, 2009	206.19	5.4417	3.775
December 31, 2008	198.42	5.2973	3.802
December 31, 2007	191.15	5.6592	3.846
Change during the period	**%**	**%**	**%**
December 31, 2009	3.92	2.73	(0.71)
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, 2009 (EURO 1 = NIS 5.4417).

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 (Q) below).

Preparation of the financial statements

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

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

Also, the financial statements were prepared in accordance with the disclosure requirements of Securities Regulations (Annual Financial Statements), 2010.

Consistent accounting polices

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

Consolidated financial statements

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

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

Note 2 - Significant Accounting Policies (cont'd)

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

1. Functional currency and presentation currency (cont'd)

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

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

2. Transactions, assets and liabilities in foreign currency

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

D. Cash and cash equivalents

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

E. Financial instruments – classification and measurement

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

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

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 assets

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

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

Financial instruments available for sale

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

F. Provision for doubtful debts

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

Note 2 - Significant Accounting Policies (cont'd)

G. Inventory

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

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

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

H. Operating turnover period

The Company's operating turnover period is 12 months.

I. Treasury stock

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

J. Leases

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

1. Operative lease

Leasing agreements in which all the risks and benefits inherent in the ownership of the asset are not really transferred, and this is classified as operative leasing. Initial direct costs accrued are added to the book cost of the asset leased and recognized over the leasing period.
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 (K) below).

Note 2 - Significant Accounting Policies (cont'd)

K. Fixed assets

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

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

(*) Regarding the land component, see (J) 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 (M) below.
Depreciation of fixed assets is discontinued on the earlier of the time at which the asset is classified as held for sale, and the time at which the asset is withdrawn. An asset is withdrawn from the books on the date of sale or when no economic benefits are expected from its use. Profit or loss from withdrawing an asset (calculated as the difference between the net consideration from the withdrawal and the depreciated book cost) is included in the statements of operations during the period in which the asset is withdrawn.

L. Intangible assets

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

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

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

Note 2 - Significant Accounting Policies (cont'd)

L. Intangible assets (cont'd)

Research and development expenses

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

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

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

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

Amortization

The useful lifespan of intangible assets is as follows:

	Years
Software	3
Patents and licenses	5
Development costs	5

M. Impairment in value of non financial assets

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

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

N. Government grants

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

Note 2 - Significant Accounting Policies (cont'd)

N. Government grants (cont'd)

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

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

O. Taxes on income

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

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

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

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

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

Note 2 - Significant Accounting Policies (cont’d)

P. Share-based payments

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

Transactions settled with capital instruments

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

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

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

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

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

Q. Liabilities for benefits to employees

The company has a number of benefits to employees plans:

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

Note 2 - Significant Accounting Policies (cont'd)

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

2. Benefits after employment

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

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

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

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

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

The Company chose one of the possible alternatives according to IAS 19, according to which the actuarial profits or losses are recorded to the comprehensive income (loss) when it is incurred.

Note 2 - Significant Accounting Policies (cont'd)

R. Recognition of revenues

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

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

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

S. Discounts to customers

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

T. Earnings (loss) per share

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

U. Provisions

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

Note 2 - Significant Accounting Policies (cont'd)

V. Disclosure of new IFRS

1. IAS 1 (amended) - Presentation of financial statements
According to the amendment to IAS 1, a separate statement must be presented "Statement of comprehensive 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 comprehensive income.
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.
The company chose to present two statements: statement of operations and statement of comprehensive income.
The amendment is applied since January 1, 2009, and was applied retroactively on the comparative figures.

2. IFRS 8 - Operative segments

As from January 1, 2009 the Group has adopted IFRS 8 "Operative segments" (hereinafter – "the Standard"). The Standard states that reporting of segments will be done in accordance with the "management approach", i.e. according to the form of internal reporting to the Group's chief operating decision maker.

An operating segment is a component of the Group which meets the following three conditions:

a. Is engaged in business operations from which it is likely to earn revenues and for which it is likely to incur expenses.
b. The operating results are reviewed regularly by the Group's chief operating decision maker to make decisions regarding resources allocated to it in order to evaluate its performance.
c. There is separate available financial information.

The first implementation of the Standard did not have any effect on the composition of the Group's reportable segments.

3. IFRS 7 – Financial instruments: Disclosures

The amendment to IFRS 7 requires providing additional disclosures in connection with the measurement of fair value an about the liquidity risk. According to the amendment, additional disclosures must be provided, inter alia, on the source of the data used in making the measurement, while using three levels of fair value rating regarding all the financial instruments measured at fair value. In addition, a reconciliation is also required between the opening balance and the closing balance, regarding measurement of fair value at level 3 (sources of data not based on market information) and this in addition to the disclosure on the significant transfers between the rating levels of the fair value.
The amendment is implemented as from the financial statements for the year starting January 1, 2009, 'from here on' (without implementing it for comparative figures).

Note 2 - Significant Accounting Policies (cont'd)

V. Disclosure of new IFRS (cont'd)

4. Amendments, standards and interpretations to the existing standards which came into force and are binding for accounting periods starting January 1, 2009, but the first implementation did not have any significant effect on the Group's financial statements:

   a. IAS 23 (amended) - Financing costs
   b. IAS 32 (amended) - Financial instruments: Presentation, and IAS 1 (amended) - Presentation of financial statements
   c. IFRS 2 (amended) - share-based payment
   d. IAS 20 (amended) - Government grants
   e. IAS 19 (Amended) - Benefits to employees
   f. IAS 28 (Amended) - Investments in affiliated companies
   g. IAS 38 (Amended) - Intangible assets
   h. IFRIC 16 - Hedging a net investment in foreign operations

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

1. 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 position, results of operations and cash flows.

2. 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)

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

2. 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 position, results of operations and cash flows.

3. IFRS 9 – Financial instruments

 In November 2009, IFRS 9 'Financial Instruments' - which is the first stage in the project of replacing IAS 39 'Financial Instruments: Recognition and Measurement' - was published. IFRS 9 focuses mainly on the classification and measurement of financial instruments and applies to all financial instruments on which IAS 39 apply.
 The Standard stipulates that on first recognition of the financial instruments (including complex instruments in which the hosting contract is a financial asset) all will be measured at fair value. During later periods, the debt instruments will be measured at a reduced cost only if the following accumulative conditions exist:

 - The asset is held in the framework of a business model, whose object is to hold assets so as to back up contractual cash flows resulting from them.
 - According to the contractual terms of the financial asset, the Company is entitled, at certain times, to receive cash flows which are only payments of principal and payments of interest on the balance of the principal.

 The later measurement of all the other debt instruments and other financial assets will be at fair value.

 Financial assets which are capital instruments will be measured at later periods at fair value, and the difference will be recorded to the statement of operations or to the comprehensive income, depending on the choice of the accounting policy regarding every instrument. If this relates to capital instruments held for trading purposes, it is compulsory to measure them at fair value through the statement of operations. The choice is final and cannot be changed. Nevertheless, when the Company changes its business model to manage the financial assets, it must reclassify all the financial instruments affected from the change in the business model in order to reflect this change. In all the other circumstances, no reclassification may be made of the financial instruments.

 The starting date of the Standard is January 1, 2013. Earlier adoption is possible. The first adoption will be done retrospectively while restating the comparative figures subject to the exemptions stated in the Standard.
 The Company is examining the possible effects of the new Standard; but, at this stage, it is unable to estimate its effect, if any, on the financial statements.

Note 2 - Significant Accounting Policies (cont'd)

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

4. In April 2009 the International Accounting Standards Board published series of Improvements to International Financial Reporting Standards - 2009. In the framework of these improvements, amendments were made to some of the standards and interpretations, which change the method of presentation, recognition and measurement of various items in the financial statements. The starting date of most of the amendments is the annual period starting January 1, 2010 or thereafter where earlier implementation is permitted.
In the framework of the amendments made, there are number of amendments which are likely to be relevant to the Group:

a. Amendment to IFRS 8 – "Operating segments" (hereinafter – "the Amendment")

The Amendment stipulates that disclosure will be made regarding the segment's assets and liabilities which are reportable only if this information is provided regularly to the chief operating decision maker.
The Amendment will be adopted retrospectively regarding annual periods of report starting January 1, 2010 or thereafter. Earlier implementation is permitted.
In the Company's opinion the Amendment to the Standard is not expected to have a significant effect on its segments report.

b. Amendment to IAS 7 – "Statements of cash flows" (hereinafter – "the Amendment")

The Amendment clarifies that only costs which bring the asset recognized in the statement on the financial position are eligible for classifying as cash flows used for investing activities.
The Amendment will be applied retrospectively regarding annual periods of report starting January 1, 2010 or thereafter. Earlier implementation is permitted.

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

c. Amendment to IAS 17 – "Leasing" (hereinafter – "the Amendment")

According to the Amendment there is no longer a demand to classify leasing of land as operative leasing in every case where the ownership is not expected to be transferred to the lessee at the end of the leasing period. According to the amended standard, the demand is to examine the leasing of the land according to ordinary criteria to classifying financial leasing or operative leasing.

In addition, it stipulates that the components of the land and buildings in leasing of land and buildings are examined separately for the purpose of classifying the leasing, based on the criteria of the standard where the significant consideration in classifying the component of the land is the fact that the land generally has an undefined lifespan.

The Amendment applies to financial statements for annual periods starting January 1, 2010 or thereafter. Earlier implementation of the Amendment is possible while disclosing this fact. The Amendment will be applied retrospectively, i.e. the method of classifying of the land leasing must be examined on the basis of information which existed at the time of the engagement in the leasing, and if there is a change in the classification of the leasing, the instructions of International Accounting Standard 17 must be applied retrospectively from the date of the engagement in the leasing. But, if the entity does not have the information required to adopt the Amendment retrospectively, it must use the existing information on the date of adopting the Amendment and recognize the asset and liability relating to the leasing of the land classified as a result of the Amendment as financial leasing at their fair value at that time. Any difference between the fair value of the asset and the fair value of the liability will be recorded to retained earnings.
At this stage the company estimates the effect on the financial statements of implementing the amendment.

Note 3 - Cash and cash equivalents

	December 31, 2009	December 31, 2009	December 31, 2008
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Israeli currency	467	2,540	5,483
Foreign currency	2,625	14,288	9,076
	3,092	16,828	14,559

Note 4 - Marketable securities

Marketable securities measured at fair value through the statement of operations

	December 31, 2009	December 31, 2009	December 31, 2008
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Israeli Bonds:			
Linked to Israeli CPI	2,073	11,278	12,576
Linked to USD	192	1,047	2,593
Unlinked	1,065	5,794	12,531
	3,330	18,119	27,700

Note 5 - Accounts receivable - trade

	December 31, 2009	December 31, 2009	December 31, 2008
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Related to work in progress in connection with long-term contracts (*):			
Open accounts	315	1,713	2,158
Income receivable	491	2,674	661
	806	4,387	2,819
Others:			
Open accounts	1,609	8,753	8,334
Post-dated checks receivable	55	301	188
	1,664	9,054	8,522
	2,470	13,441	11,341
Provision for doubtful debts	(10)	(57)	(46)
	2,460	13,384	11,295

(* Costs and recognized profits	4,802	26,133	15,597
Less bills of progress in work	4,040	21,989	13,075
	762	4,144	2,522
V.A.T on open accounts	44	243	297
	806	4,387	2,819

Costumers without provision for doubtful debts:

	Customers without collection delay	Customers with collection delay of: Up to 30 days	30 to 90 days	More then 90 days	Total
		NIS (in thousands)			
December 31, 2009	6,755	3,443	167	44	10,409
December 31, 2008	5,875	3,758	809	4	10,446

Note 6 - Inventory

	December 31, 2009	December 31, 2009	December 31, 2008
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Raw and packaging	1,141	6,207	6,128
Work in process	625	3,399	3,350
Finished products	431	2,347	3,848
	2,197	11,953	13,326

An impairment in value of inventory recorded to the cost of revenues in the reported year aggregated an amount of NIS 589 thousand (in 2008 – NIS 1,173 thousand).

Note 7 - Inventory - work in progress

	December 31, 2009	December 31, 2009	December 31, 2008
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Cost of work performed	5,812	31,627	17,973
Less amounts charged to statements of operations	4,372	23,792	17,973
	1,440	7,835	-

Note 8 - Property and equipment, net

	Land and Buildings (*)	Leasehold improvements	Machinery and Equipment	Motor vehicles	Office furniture and Equipment	Total
			NIS (in thousands)			
Cost						
Balance as at January 1, 2008	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
Additions	-	1,083	209	716	356	2,364
Disposals	-	-	(981)	(490)	(215)	(1,686)
Translation differences	-	-	-	-	(5)	(5)
Balance as at December 31, 2009	17,823	1,083	4,885	1,031	2,366	27,188
Accumulated depreciation						
Balance as at January 1, 2008	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
Depreciation during the year	567	18	697	128	196	1,606
Disposals	-	-	(980)	(373)	(215)	(1,568)
Translation differences	-	-	-	-	(4)	(4)
Balance as at December 31, 2009	3,935	18	3,142	273	973	8,342
Net book value as at December 31, 2009	13,888	1,065	1,743	758	1,393	18,847
Net book value as at December 31, 2008	14,455	-	2,232	287	1,234	18,208

(*) 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	Leasehold improvements	Machinery and Equipment	Motor vehicles	Office furniture and Equipment	Total
			(in thousands)			
Cost						
Balance as at January 1, 2009	3,275	-	1,040	148	410	4,873
Additions	-	199	38	132	65	434
Disposals	-	-	(180)	(90)	(40)	(310)
Translation differences	-	-	-	-	(1)	(1)
Balance as at December 31, 2009	3,275	199	898	190	434	4,996
Accumulated depreciation						
Balance as at January 1, 2009	619	-	629	95	184	1,527
Depreciation during the year	105	3	128	24	36	296
Disposals	-	-	(180)	(69)	(40)	(289)
Translation differences	-	-	-	-	(1)	(1)
Balance as at December 31, 2009	724	3	577	50	179	1,533
Net book value as at December 31, 2009	2,551	196	321	140	255	3,463

Note 9 - Intangible assets, net

	NIS (in thousands)			
Cost				
Balance as at January 1, 2008	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
Additions - internal created	-	-	4,522	4,522
Additions - bought	-	307	-	307
Balance as at December 31, 2009	639	1,372	19,580	21,591
Accumulated amortization				
Balance as at January 1, 2008	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
amortization during the year	92	325	3,456	3,873
Balance as at December 31, 2009	554	972	5,328	6,854
Net book value as at December 31, 2009	85	400	14,252	14,737
Net book value as at December 31, 2008	177	418	13,186	13,781

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, 2009	117	196	2,767	3,080
Additions - internal created	-	-	831	831
Additions - bought	-	56	-	56
Balance as at December 31, 2009	117	252	3,598	3,967
Accumulated amortization				
Balance as at January 1, 2009	85	119	343	547
Amortization during the year	17	60	635	712
Balance as at December 31, 2009	102	179	978	1,259
Net book value as at December 31, 2009	15	73	2,620	2,708

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,		
	2009	2009	2008	2007
	(in thousands)			
	Convenience translation into EURO, (unaudited)	NIS		
Cost of revenues	675	3,672	2,062	140
Development expenses, net	9	51	65	48
Selling & marketing expenses	6	35	50	37
General & administrative expenses	21	115	146	132
	711	3,873	2,323	357

Note 10 - Current maturities of non current liabilities

	December 31, 2009	December 31, 2009	December 31, 2008
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
A. Current maturities of non current loans:			
Linked to the USD	76	412	415
Linked to the EURO	92	502	489
Not linked	13	72	107
	181	986	1,011
B. Current maturities of bond and convertible bonds:			
Linked to the USD	1,545	8,409	8,750
Linked to the CPI	1,084	5,897	7,180
	2,629	14,306	15,930

Note 11 - Accounts payable - trade

Suppliers	1,484	8,076	6,997
Post-dated checks payable	492	2,679	2,548
	1,976	10,755	9,545

Note 12 - Accounts payable - other

Employees, payroll and taxes	397	2,161	2,445
Government institutions	5	25	383
Provision for vacation	53	289	353
Accrued expenses	1,112	6,051	5,641
Prepaid income	172	938	87
Advances from costumers	2,810	15,287	4,120
	4,549	24,751	13,029

Note 13 - Loans from banks and others

A. Consisting of the following:

	Annual Interest Rates %	December 31, 2009	December 31, 2009	December 31, 2008
			(in thousands)	
		Convenience translation into EURO, (unaudited)	NIS	
Long-term loans from banks:				
Linked to the USD	Libor+2.02(*)	606	3,295	3,733
Linked to the EURO	Libor+2.02(**)	738	4,017	4,399
Less current maturities		(168)	(914)	(904)
		1,176	6,398	7,228
Long-term loans from others:				
Motor vehicles lassoers -				
Not linked	9.90	83	454	107
Less current maturities		(13)	(72)	(107)
		70	382	-
		1,246	6,780	7,228

(*) As at December 31, 2009 - 2.395%
(**) As at December 31, 2009 - 2.770%

B. Aggregate maturities are as follows:

Second year	184	999	904
Third year	185	1,008	904
Fourth year	187	1,018	904
Fifth year	186	1,013	904
Sixth year and thereafter	504	2,742	3,612
	1,246	6,780	7,228

C. Mortgages - see note 16.

Note 14 - Bonds

A. Convertible Bonds

1. 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.

2. Consisting of the following:

	December 31, 2009	December 31, 2009	December 31, 2008
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Bonds linked to USD (see 2 below)	1,580	8,600	17,500
Less discount, net	(35)	(191)	(854)
	1,545	8,409	16,646
Less current maturities	(1,545)	(8,409)	(8,750)
	-	-	7,896

3. Aggregate maturities are as follows:

	December 31, 2009	December 31, 2009	December 31, 2008
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Current maturities	1,580	8,600	8,750
Second year	-	-	8,750
	1,580	8,600	17,500

Note 14 - Bonds (cont'd)

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. Consisting of the following:

Bonds linked to the Israeli CPI	4,336	23,590	35,900
Less discount, net	(270)	(1,467)	(2,674)
	4,066	22,123	33,226
Less current maturities	1,084	(5,897)	(7,180)
	2,982	16,226	26,046

3. Aggregate maturities are as follows:

Current maturities	1,084	5,897	7,180
Second year	1,084	5,897	7,180
Third year	1,084	5,897	7,180
Fourth year	1,084	5,899	7,180
Fifth year	-	-	7,180
	4,336	23,590	35,900

C. In the reported period the company purchased NIS 300 thousands convertible bonds (series 1) and NIS 7,100 thousands bonds (series 2) at a sum of NIS 5,558 thousands.
As a result of the purchase the company recorded gain from early redemption of bonds at a sum of NIS 1.8 million.

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 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,		
	2009	2009	2008	2007
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Expenses for defined contribution plans	160	872	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	108	585	664	1,006
Interest on obligation	67	364	321	300
Expected return on plan assets	(59)	(319)	(319)	(325)
	116	630	666	981
Actual return on plan assets	131	715	(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,	
	2009	2009	2008
	Convenience translation into EURO, (unaudited)	(in thousands) NIS	
Liabilities	1,190	6,477	6,384
Assets	(1,018)	(5,540)	(5,581)
Net liability	172	937	803

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

	2009	2009	2008
	Convenience translation into EURO, (unaudited)	(in thousands) NIS	
Opening defined benefit obligation	1,172	6,384	6,102
Interest cost	67	364	321
Service cost	108	585	664
Liabilities extinguished on settlements	(209)	(1,140)	(731)
Actuarial losses, net	52	284	28
Closing defined benefit obligation	1,190	6,477	6,384

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	1,026	5,581	5,941
Expected return	58	319	319
Contributions by employer	47	256	338
Assets distributed on settlements	(162)	(879)	(151)
Actuarial gain (losses), net	73	396	(866)
Yield transfer of the severance pay component to the pension component	(24)	(133)	-
Closing fair value of plan assets	1,018	5,540	5,581

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

5. Principal actuarial assumptions for defined benefit plans:

	For the year ended December 31,		
	2009	2008	2007
	Rate (%)		
Discount rate	4.00	4.20	3.62
Expected return on plan assets (*)	5.50-6.30	1.80-3.90	2.00-4.09
Future salary increases	1.90	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 total grants less royalties paid at December 31, 2009 amount to NIS 564 thousands (EURO 104 thousands). The liability in respect of royalties to the Government at December 31, 2009 amounts to NIS 185 thousands (EURO 34 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, 2009, the company gave performance guarantees to customers in the total amount of NIS 18.1 millions (EURO 3.3 millions).

Note 17 - Share Capital

A. Composition

	Number of shares December 31, 2009 and 2008	
	Authorized	Issued and fully paid
Ordinary shares of NIS 0.02 par value each	100,000,00 0	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, option plan expired at the reported period. The 2001 and 2003 Option Plans expire in the years, 2011 and 2013 respectively.

As at the date of publishing the financial statements, all the options under 2001 and 2003 plans were expired.

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.

In December 2009, the Company's Board of Directors approved a plan for the acquisition of ordinary shares of the Company for a total amount not more then NIS 1.75 million. This plan is valid until March 31, 2010.

As of December 31, 2009, the Company held 753,092 shares comprising 6.45% of the Company's issued share capital purchased for a total amount of NIS 3,150 thousand (as of December 31, 2008, the Company held 664,880 shares which comprised 5.7% of the Company's issued share capital).

After the balance sheet date, the Company continues to buy ordinary shares according to the above-mentioned plan.

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.

G. <u>Managing the Company's capital</u>

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 18 - Cost of revenues

	For the year ended December 31,	For the year ended December 31,		
	2009	2009	2008	2007
		(in thousands)		
	Convenience translation into EURO, (unaudited)		NIS	
Materials consumed and subcontractors	6,459	35,145	34,993	51,519
Payroll and related benefits	1,715	9,335	9,973	12,315
Changes in work in process and finished products	249	1,353	224	(1,000)
Depreciation and amortization	188	1,021	1,088	1,083
Management and maintenance costs	131	712	716	809
Other expenses	1,436	7,819	6,762	6,139
	10,178	55,385	53,756	70,865

Note 19 - Development expenses, net

Payroll and related benefits	823	4,479	6,349	6,480
Subcontractors	52	281	518	447
Other expenses	353	1,923	2,183	2,345
Less - capitalized expenses	(839)	(4,567)	(7,433)	(7,625)
	389	2,116	1,617	1,647

Note 20 - Selling and marketing expenses

Salaries and related benefits	771	4,194	5,452	6,070
Travel and marketing abroad	83	452	653	445
Exhibits, advertising and other expenses	965	5,250	6,344	7,052
	1,819	9,896	12,449	13,567

Note 21 - General and administrative expenses

Salaries and related benefits	629	3,428	2,800	2,407
Office rent, maintenance and communications	75	410	333	422
Depreciation and amortization	56	304	300	557
Professional services	370	2,011	1,216	2,370
Bad and doubtful debts	3	14	13	25
Other expenses	82	446	439	795
	1,215	6,613	5,101	6,576

Note 22 - Financing income (expenses)

	For the year ended December 31,	For the year ended December 31,		
	2009	2009	2008	2007
	(in thousands)			
	Convenience translation into EURO, (unaudited)	NIS		
A. Financing income				
Profit and interest from marketable securities, net	651	3,542	-	1,270
Gain on cash and cash equivalents and bank deposits	-	-	-	75
Reevaluation of embedded derivatives	-	-	-	103
Reevaluation of warrants	-	-	193	1,618
Profit from early redemption	338	1,838	-	-
Others	-	-	93	1,629
	989	5,380	286	4,695
B. Financing expenses				
Financing cost relating to bonds	834	4,538	6,789	6,392
Loss and interest from marketable securities, net	-	-	1,239	-
Loss on cash and cash equivalents and bank deposits	39	213	1,032	-
Financing cost relating to long term debt	73	399	132	372
Reevaluation of warrants	15	83	-	-
Reevaluation of embedded derivatives	236	1,286	215	-
Others	102	550	622	1,886
	1,299	7,069	10,029	8,650
C. Classification of finance income (expenses) according to finance instruments				
Financial assets at fair value through the statement of operations	651	3,542	(1,239)	1,270
Financial liabilities measured at reduced cost	(907)	(4,937)	(6,921)	(6,764)
Financial liabilities fair value through the statement of operations	(15)	(83)	193	1,618

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,		
	2009	2009	2008	2007
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Salaries and related benefits (*)	274	1,492	1,485	1,465
Bonus interested parties	127	689	-	208
Directors' remuneration (**)	23	127	118	81
Rental expenses	105	573	348	413
(*) Number of recipients	2	2	2	2
(**) Number of recipients	3	3	4	3

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. On July, 2009 the Company shareholders general meeting approved a new lease agreement with a company controlled by the company's controllers. According to the new agreement the total rental office space is 936 square meters, as well as 20 parking spaces. According to the agreement, the rental is for an additional period of thirty six months, starting August 1, 2009.

6. In May 2009 the Audit Committee and the Board of Directors of the company decided to approve unilateral waiver of Mr. Haim Shani and Mrs. Bareket Shani, the controlling shareholder in the company and his wife, about 15% of the salary and the related benefits for a limited period of 6 months at the end the salary and the related benefits will revert to their original terms (as in force prior to the waiver).

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.

The period of tax benefits, detailed above, is subject to a time limit of the earlier of 12 years from the commencement of production, or 14 years from receiving the approval.
In the event of a distribution of cash dividends from income which is tax exempt due to the above, the Company would have to pay Company tax on the amount distributed.

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.

Note 24 - Taxes on Income (cont'd)

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

	For the year ended December 31,	For the year ended December 31,		
	2009	2009	2008	2007
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Profit (loss) before taxes on income	1,559	8,482	(2,946)	5,658
Tax rate (%)	26	26	27	29
Theoretical tax	405	2,205	(795)	1,641
Increase in taxes resulting from non-deductible expenses	63	343	59	131
Temporary differences where deferred taxes were not recognized	(468)	(2,548)	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%.
On July 23 2009 the economic efficiency law was published (legislation amendments for implementation of the economic plan for the years 2009 and 2010), 2009, that determined, among other things, additional gradual reduction of cooperate income tax starting from 2011 and forth: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and forward - 18%.

F. Final tax assessments
The Company has final tax assessments for all years up to December 31, 2005.

G. Tax loss carry forward
As at December 31, 2009 the company's tax loss carry forward where deferred taxes were not recognized, amounts to approximately NIS 19 million (EURO 3.5 million) and the consolidated loss amount to approximately NIS 25 million (EURO 4.6 million).

Note 25 - Operative segments

1. General

A. The Group defined the Company's CEO who makes the strategic decisions as the chief operating decision maker, of the Group. The CEO reviews the internal reports of the Group in order to evaluate performance and allocate recourses. The operating segments were determined based on these reports.

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

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

C. Part of the revenues and expenses are allocated directly to the operative segments. Expenses, which relate to both segments, are allocated to the segments on a reasonable basis.

D. The segment assets includes all the operation assets which the segment is using and contain especially accounts receivable trade and inventory. The segment liabilities includes all the operation liabilities which relate to the segment especially accounts payable trade and other and accrued severance pay, net.

E. The company and subsidiaries revenues can also be classified geographically.

2. Report on operative segments

A. Revenues

	For the year ended December 31,	For the year ended December 31,		
	2009	2009	2008	2007
	(in thousands)			
	Convenience translation into EURO, (unaudited)	NIS		
Products	10,566	57,496	64,418	60,041
System integration projects	4,802	26,133	14,597	41,528
Other	90	489	705	699
Total revenues	15,458	84,118	79,720	102,268

B. Segment results and adjustment to the profit

Products	4,104	22,329	22,348	16,842
System integration projects	5	29	(6,597)	1,083
Other	(41)	(223)	(11)	(109)
Unallocated corporate expenses	(2,199)	(11,964)	(8,943)	(8,203)
Operating profit	1,869	10,171	6,797	9,613
Unallocated corporate financing expenses, net	310	(1,689)	(9,743)	(3,955)
Profit (loss) for the year	1,559	8,482	(2,946)	5,658

Note 25 - Operative segments (cont'd)

2. Report on operative segments (cont'd)

C. Segment assets

	December 31, 2009	December 31, 2009	December 31, 2008
	Convenience translation into EURO, (unaudited)	(in thousands) NIS	
Products	3,982	21,667	23,184
System integration projects	2,454	13,356	3,813
Other	7	38	53
Unallocated corporate assets	12,927	70,346	75,371
Consolidated total assets	19,370	105,407	102,421

D. Segment liabilities

	December 31, 2009	December 31, 2009	December 31, 2008
Products	1,795	9,767	9,185
System integration projects	4,092	22,267	9,748
Other	24	131	86
Unallocated corporate liabilities	8,118	44,177	62,702
Consolidated total liabilities	14,029	76,342	81,721

E. Capital expenditure

	For the year ended December 31, 2009	For the year ended December 31, 2009	2008	2007
	Convenience translation into EURO, (unaudited)	(in thousands) NIS		
Products	46	249	365	486
System integration projects	57	311	203	591
Unallocated capital expenditure	1,227	6,677	8,312	9,143
Consolidated total capital expenditure	1,330	7,237	8,880	10,220

F. Depreciation and amortization

	2009 (EURO)	2009	2008	2007
Products	73	395	506	461
System integration projects	91	494	281	447
Unallocated depreciation and amortization	1,102	5,999	5,103	3,653
Total depreciation and amortization	1,266	6,888	5,890	4,561

Note 25 - Operative segments (cont'd)

3. Geographical information

A. Revenues (according to the clients location)

	For the year ended December 31,	For the year ended December 31,		
	2009	2009	2008	2007
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Israel	5,002	27,217	18,833	37,350
Europe	5,436	29,584	34,896	34,319
America	4,326	23,542	21,870	26,363
Other destinations	694	3,775	4,121	4,236
	15,458	84,118	79,720	102,268

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

	December 31, 2009	December 31, 2009	December 31, 2008
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Israel	6,694	36,429	34,898
America	46	247	227
Consolidated total non-current assets	6,740	36,676	35,125

Note 25 - Operative segments (cont'd)

D. Principal customers

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

	For the year ended December 31,	For the year ended December 31,		
	2009	2009	2008	2007
	(in thousands)			
	Convenience translation into EURO, (unaudited)	NIS		
Costumer A (system integration projects segment)	64	350	1,137	10,342
Costumer B (system integration projects segment)	16,522	8,996	-	-

Note 26 - Profit (loss) per share

Profit (loss) for the year				
Basic and Fully diluted	1,559	8,482	(2,946)	5,658
Weighted average share capital (number of shares)				
Basic and Fully diluted	11,007,991	11,007,991	11,048,436	11,082,454

Note 27 - Financial Instruments

A. Classification of financial asset and financial liabilities

The following is a classification of financial assets and financial liabilities in the balance sheets to groups of financial instruments in accordance with IAS 39:

	December 31, 2009	December 31, 2008
	(in thousands) NIS	
Financial assets		
Financial assets at fair value through the statement of operations:		
Financial assets classified as held for trading	18,119	27,700
Loans and receivables	13,845	11,483
Financial liabilities		
Financial liabilities measured at reduced cost	57,579	69,352
Financial liabilities at fair value through the statement of operations classified as held for tradind	100	18

Note 27 - Financial Instruments (cont'd)

B. Financial Risk factors

The Company's operations expose it to various financial risks such as market risks (including currency risks, fair value risks relating to the rate of interest and price risks) credit risks, liquidity risks and cash flow risks relating to the rate of interest. The program for managing the Company's risks focuses on actions to reduce to a minimum the negative possible effects of the company's financial transactions.

Managing risks is carried out by the Company's management under the supervision of its Board of Directors.

1. Market Risks

A. Currency and Index risks

1. Most of the engagements that the Company had in the field of the systems are generally linked to the US dollar or the Euro. In addition a considerable part of the Company's sales in the field of products are dominated or linked to the US dollar or the Euro. Changes in the rates of exchange of the dollar against the shekel and of the Euro against the shekel, mainly during the period between the signing of the agreements and payment for them, are likely to create an exposure for the Company.

2. The Company policy is that the engagements and payments that the Company makes with sub-contractors and suppliers relating to the projects in the field of systems are denominated or linked to the US dollar or to the Euro. Therefore, changes in the rates of exchange of the US dollar against the shekel and of the Euro against the shekel are likely to create an exposure for the Company.
   It should also be stated that there is a certain protection in that in the field of systems the Company's policy is linkage of contracts with sub-contractors to the currency in which the engagement with the customer is linked.

3. The Company has convertible bonds linked to the US dollar and bonds linked to the CPI 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.

4. The Company has loans in US dollar and in Euro, and therefore changes in the rates of exchange of the US dollar and the Euro against the NIS can create an exposure for the Company.

B. Interest risks

The company has loans denominated in US dollar and in Euro, with variable interest in a spread from Libor.

Changes in the rates of interest are likely to affect the company's business results.

The Company has liquid balances, which are deposited in unlinked NIS balances, bearing interest, and therefore the Company is exposed to changes in the NIS rates of interest which are likely to affect the Company's business results.

C. Price risks

The Company has investments in marketable financial instruments on the stock exchange, mainly bonds, classified as financial assets measured at fair value through the statements of operations, for which the Company is exposed to a risk for fluctuations in the price of the securities based on stock exchange market prices. The balance in the financial statements as at December 31, 2009, of these investments, is NIS 18,119 thousands (2008 – NIS 27,700 thousands).

Note 27 - Financial Instruments (cont'd)

B. Financial Risk factors (cont'd)

2. Credit Risks

As at December 31, 2009 the company had trade account receivables and other account receivables amounting to approximately NIS 13,996 thousands. The company does not predict material credit risks in respect of trade account receivables and other account receivables.

3. Instability risks

The liquidity risk is the risk that the Company will not be able to meet its financial obligations when they fall due. The Company's approach to management of the liquidity risk is to ensure, as far as possible, a sufficient level of liquidity to meet its obligations in due time.

The Company operates in order to enable the existence of sufficient levels of liquid means to pay the expected operating expenses and amounts required to meet its financial obligations. This does not take into account the potential effect of extreme scenarios where there is no reasonable likelihood to expect them.

The following table presents the contractual maturities dates of the financial liabilities:

December 31, 2009:

	1th year	2th year	3th year	4th year	5th year and after	Total
				NIS, (in thousands)		
Accounts payable - trade	10,619	-	-	-	-	10,619
Accounts payable - other	8,439	-	-	-	-	8,439
Loans from banks and others	986	999	1,008	1,018	3,755	7,766
Convertible bonds	8,600	-	-	-	-	8,600
bonds	5,897	5,897	5,897	5,899	-	23,590
	34,541	6,896	6,905	6,917	3,755	59,014

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

Note 27 - Financial Instruments (cont'd)

C. Fair value

The following table presents the balances in the financial statements and the fair value of financial instruments which are not presented in the financial statements according to their fair value:

	Book value		Fair value	
	December 31,		December 31,	
	2009	2008	2009	2008
	NIS, (in thousands)			
Financial liabilities (1)				
Convertible bonds linked to the USD	(8,409)	(16,646)	(8,548)	(15,172)
Convertible bonds linked to the Israeli CPI	(22,123)	(33,226)	(24,554)	(24,650)

(1) The fair value is based on stock market value as at the balance sheet date.

D. Classification of financial instruments at fair value rating

The financial instruments presented in the balance sheet at fair value are classified, according to groups with similar characteristics, to the rating of fair value as follows, which is determined in accordance with the source of the data used in determining fair value:

Level 1: Quoted prices (without adjustments) in an active market of identical assets and liabilities.

Level 2: Data which is not quoted prices included in Level 1, which can be seen directly or indirectly.

Level 3: Data which is not based on market data which can be seen (evaluation techniques without the use of market data which can be seen).

Financial assets measured at fair value

	Level 1	Level 2	Level 3
	NIS, (in thousands)		
As at December 31, 2009:			
Financial assets at fair value through the statement of operations:			
Marketable securities	18,119	-	-

Financial liabilities measured at fair value:

	Level 1	Level 2	Level 3
As at December 31, 2009:			
Financial liabilities at fair value through the statement of operations:			
Warrants	100	-	-

During 2009 there were no transfers for measuring fair value of any financial instruments between Level 1 and Level 2, and there were no transfers to or from Level 3 from measuring fair value of any financial instruments.

Note 27 - Financial Instruments (cont'd)

E. Embedded derivatives

The Group has sales contracts denominated in currencies which are not the Company's functional currency. These contracts include embedded derivatives in foreign currency.

The embedded derivatives were separated and measured at fair value through the statement of operations. The liabilites balance in the financial statements of the embedded derivatives, as at December 31, 2009, is NIS 1,501 thousand (in 2008 – a liability of NIS 215 thousand).

F. Sensitivity analyses for changes in market factors

	Sensitivity analyses for changes in the USD interest rate	
	Profit (loss)	
	1% rate increase	1% rate decrease
	NIS (in thousands)	
2009	(119)	119
2008	(212)	212

	Sensitivity analyses for changes in the USD interest rate	
	Profit (loss)	
	1% rate increase	1% rate decrease
	NIS (in thousands)	
2009	(40)	40
2008	(44)	44

	Sensitivity analyses for changes in the USD exchange rate	
	Profit (loss)	
	5% increase	5% decrease
	NIS (in thousands)	
2009	328	(328)
2008	246	(246)

	Sensitivity analyses for changes in the Euro exchange rate	
	Profit (loss)	
	5% increase	5% decrease
	NIS (in thousands)	
2009	402	(402)
2008	188	(188)

Note 27 - Financial Instruments (cont'd)

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

	Sensitivity analyses for changes in the CPI Profit (loss)	
	5% increase	5% decrease
	NIS (in thousands)	
2009	(564)	564
2008	(1,037)	1,037

	Sensitivity analyses for changes in the marketable securities market rates	
	5% increase	5% decrease
	NIS (in thousands)	
2009	906	(906)
2008	1,385	(1,385)

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 (cont'd)

F. Additional information regarding significant investments in financial assets

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

	December 31, 2009	December 31, 2008
	(in thousands) NIS	
Financial assets at fair value through the statement of operations:		
Marketable securities	18,119	27,700
Loans and receivables	13,845	11,483
	31,964	39,183

2. Date of forecasted realization of the significant investments according to groups of financial instruments in accordance with IAS 39:

December 31, 2009:

	1th year	2th year	3th year	4th year	5th year and after	Total
	NIS, (in thousands)					
Financial assets at fair value through the statement of operations:						
Marketable securities	18,119	-	-	-	-	18,119
Loans and receivables	13,845	-	-	-	-	13,845
	31,964	-	-	-	-	31,964

December 31, 2008:

	1th year	2th year	3th year	4th year	5th year and after	Total
	NIS, (in thousands)					
Financial assets at fair value through the statement of operations:						
Marketable securities	27,700	-	-	-	-	27,700
Loans and receivables	11,483	-	-	-	-	11,483
	39,183	-	-	-	-	39,183

Note 27 - Financial Instruments (cont'd)

F. Additional information regarding significant investments in financial assets (cont'd)

3. Linkage conditions of financial assets according to groups of financial instruments in accordance with IAS 39:

December 31, 2009:

	US Dollar	Euro	Linked to the Israeli CPI	Linked to other basis	Not linked	Total
			NIS, (in thousands)			
Financial assets at fair value through the statement of operations:						
Marketable securities	1,047	-	11,280	-	5,792	18,119
Loans and receivables	3,706	6,222	-	-	3,917	13,845
	4,753	6,222	11,280	-	9,709	31,964

December 31, 2008:

	US Dollar	Euro	Linked to the Israeli CPI	Linked to other basis	Not linked	Total
Financial assets at fair value through the statement of operations:						
Marketable securities	2,593	-	12,576	-	12,531	27,700
Loans and receivables	3,112	4,076	-	-	4,295	11,483
	5,705	4,076	12,576	-	16,826	39,183

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

December 31, 2009:

	US Dollar	Euro	Linked to the Israeli CPI	Linked to other basis	Not linked	Total
Financial liabilities at fair value through the statement of operations:	13,396	4,182	22,578	-	17,423	57,579
Financial liabilities measured at reduced cost	-	-	100	-	-	100
	13,396	4,182	22,678	-	17,423	57,679

December 31, 2008:

	US Dollar	Euro	Linked to the Israeli CPI	Linked to other basis	Not linked	Total
Financial liabilities at fair value through the statement of operations:	18,460	1,123	33,333	-	16,436	69,352
Financial liabilities measured at reduced cost	-	-	18	-	-	18
	18,460	1,123	33,651	-	16,436	69,370

Note 28 - Separate Financial statements of the company

A. Statements of financial position

	December 31, 2009	December 31, 2009	December 31, 2008
	(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS	
Current assets			
Cash and cash equivalents	2,432	13,232	12,167
Marketable securities	3,330	18,119	27,700
Accounts receivable -			
Trade	2,036	11,079	8,859
Other	1,166	6,348	4,616
Inventory	2,057	11,196	12,494
Inventory - work in progress	1,440	7,835	-
	12,461	67,809	65,836
Non current assets			
Long-term deposits	29	159	134
Loans to subsidiary	1,470	8,000	8,000
Investment in subsidiaries	(*) -	1	1
Property and equipment, net	3,418	18,600	17,981
Prepaid leasehold rights expenses, net	540	2,933	3,002
Intangible assets, net	2,708	14,737	13,781
	8,165	44,430	42,899
	20,626	**112,239**	**108,735**
Current liabilities			
Current maturities of non current liabilities	2,810	15,292	16,941
Accounts payable -			
Trade	1,956	10,645	9,337
Other	4,505	24,511	12,653
Embedded derivatives	276	1,501	215
Warrants	18	100	18
	9,565	52,049	39,164
Non current liabilities			
Loans from banks and others	1,246	6,780	7,228
Convertible bonds	-	-	7,896
Bonds	2,982	16,226	26,046
Liabilities for benefits to employees, net	172	937	803
	4,400	23,943	41,973
Shareholders' equity	6,661	36,247	27,598
	20,626	**112,239**	**108,735**

(*) less then 1,000 Euro.

Note 28 - Separate Financial statements of the company (cont'd)

B. Statements of operations

	For the year ended December 31,	For the year ended December 31,		
	2009	2009	2008	2007
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Revenues	14,561	79,238	74,799	97,114
Cost of revenues	9,954	54,165	52,271	68,701
Gross profit	4,607	25,073	22,528	28,413
Development expenses, net	389	2,116	1,617	1,647
Selling & marketing expenses	1,227	6,679	9,057	9,781
General & administrative expenses	1,101	5,993	4,508	5,847
Capital gain	12	63	-	-
Operating profit	1,902	10,348	7,346	11,138
Financing income	989	5,380	286	4,602
Financing expenses	1,282	6,972	10,102	8,650
Profit (loss) for the year	1,609	8,756	(2,470)	7,090

Note 28 - Separate Financial statements of the company (cont'd)

C. Statements of comprehensive income

	Note	For the year ended December 31, 2009 Convenience translation into EURO, (unaudited)	For the year ended December 31, 2009	2008	2007
			(in thousands) NIS		
Profit (loss) for the year		1,609	8,756	(2,470)	7,090
Other comprehensive income					
Actuarial gain (loss)		21	112	(894)	341
Other comprehensive income (loss) for the year		21	112	(894)	341
Total comprehensive income (loss) for the year		1,630	8,868	(3,364)	7,431

Note 28 - Separate Financial statements of the company (cont'd)

D. 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
Comprehensive income	-	-	-	-	7,431	7,431
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	-	-	-	3
Comprehensive loss	-	-	-	-	(3,364)	(3,364)
Balance at December 31, 2008	352	326	50,250	(2,931)	(20,399)	27,598
Purchase of company shares by the company				(219)		(219)
Comprehensive income	-	-	-	-	8,868	8,868
Balance at December 31, 2009	352	-	50,576	(3,150)	(11,531)	36,247

	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, 2009	65	60	9,234	(539)	(3,749)	5,071
Purchase of company shares by the company	-	-	-	(40)	-	(40)
Warrants expiration	-	(60)	60	-	-	-
Comprehensive income	-	-	-	-	1,630	1,630
Balance at December 31, 2009	65	-	9,294	(579)	(2,119)	6,661

Note 28 - 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,		
	2009	2009	2008	2007
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	NIS		
Cash flows from operating activities				
Profit (loss) for the year	1,609	8,756	(2,470)	7,090
Adjustments necessary to show the cash flows from operations (Appendix A)	1,507	8,200	19,161	(7,638)
Cash flows provided by operating activities	3,116	16,956	16,691	(548)
Cash flows from investing activities				
Sale of (investment in) marketable securities, net	2,260	12,298	8,405	(9,030)
Purchase of property and equipment	(419)	(2,281)	(1,047)	(1,956)
Sale of property and equipment	33	180	-	-
Investment in long-term deposits	(31)	(166)	-	(201)
Repayment of long-term deposits	40	218	106	73
Investment in intangible assets	(887)	(4,829)	(7,689)	(8,022)
Cash flows provided by (used in) investing activities	996	5,420	(225)	(19,136)
Cash flows for financing activities				
Repayment of long-term loans	(198)	(1,076)	(1,010)	(1,229)
Repayment of convertible bonds	(1,580)	(8,600)	(10,629)	(10,723)
Early redemption of bonds	(971)	(5,286)	-	-
Early redemption of convertible bonds	(50)	(272)	-	-
Repayment of bonds	(1,077)	(5,858)	-	-
Purchase of company shares by the company	(40)	(219)	(78)	(213)
Cash flows used in financing activities	(3,916)	(21,311)	(11,717)	(12,165)
Change in cash and cash equivalents	196	1,065	4,749	(31,849)
Cash and cash equivalents at beginning of year	2,236	12,167	7,418	39,267
Cash and cash equivalents at end of year	2,432	13,232	12,167	7,418

Note 28 - 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,		
	2009	2009	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	1,247	6,784	5,832	4,509
Loss from marketable securities, net	(499)	(2,717)	2,512	803
Benefit arising from warrants granted	-	-	3	44
Increase (decrease) in viabilities for benefits to employees	45	246	(253)	10
Reevaluation of warrants and conversion option of convertible bonds	15	83	(194)	(2,620)
Capital gain	(12)	(63)	-	-
Exchange rate changes of long-term loans and Convertible bonds	335	1,821	1,057	211
Profit from early redemption	(338)	(1,838)	-	-
Reevaluation of Embedded derivatives	236	1,286	215	(103)
Decrease (increase) in accounts receivable - trade	(408)	(2,220)	3,582	934
Decrease (increase) in accounts receivable - other	(332)	(1,809)	4,885	(9,679)
Decrease (increase) in inventory	239	1,298	(459)	1,019
Decrease (increase) in inventory - work in progress	(1,440)	(7,835)	319	110
Increase (decrease) in accounts payable - trade	240	1,308	(3,084)	524
Increase (decrease) in accounts payable - other	2,179	11,856	4,746	(3,400)
	1,507	8,244	19,161	(7,638)

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

	Holding rate as at December 31, 2009 and 2008		Total investment as at December 31,	
	Shares with voting right	Shares with profit right	2009	2008
			(NIS, thousands)	
Unitronics Inc.	100%	100%	1,114	1,172
Unitronics building management and maintenance (2003) Ltd.	100%	100%	(295)	(69)

UNITRONICS (1989) (R"G) LTD.

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

December 31, 2009

Unitronics (1989) (R"G) Ltd.

Special report under Regulation 9C

Financial data from the consolidated financial statements

attributed to the company itself

Hereinafter the financial data and separate financial information attributed to the company itself from the consolidated financial statements of the Group as at December 31, 2009 published in the periodic reports (hereinafter - the consolidated financial statements), presented in accordance with Regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies applied on the disclosure of the financial data described in Note 2 to the consolidated financial statements.

Consolidated companies - defined in Note 1D to the consolidated financial statements.

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

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

Re: Auditor's special report on separate financial information under Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the separate financial information presented in accordance with regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Unitronics (1989) (R"G) Ltd. (hereinafter - the "Company") as at December 31, 2009 and 2008 and for the three years the last of which ended December 31, 2009 which included in the company's periodic report. The separate financial information is in the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on this separate financial information based on our audit.

We conducted our audits in accordance with auditing standards, generally accepted in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance that the separate financial information is free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial information. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and Management of the Company, as well as evaluating the overall separate financial information presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the separate financial information is prepared, in all material respects, in accordance with regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Amit, Halfon
Certified Public Accountants (Israel)

Ramat-Gan
March 4, 2010

Unitronics (1989) (R"G) Ltd.

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

	Additional information	December 31, 2009	December 31, 2009	December 31, 2008
			(in thousands)	
		Convenience translation into EURO, (unaudited) (1)	NIS	
Current assets				
Cash and cash equivalents	B	2,432	13,232	12,167
Marketable securities	C	3,330	18,119	27,700
Accounts receivable -				
Trade	C	2,036	11,079	8,859
Other	C	101	552	323
Accounts receivable - other - subsidiaries	F	1,067	5,806	4,293
Inventory		2,057	11,196	12,494
Inventory - work in progress		1,440	7,835	-
		12,463	67,819	65,836
Non-current assets				
Assets less liabilities associated with subsidiaries	F	205	1,114	1,172
Long-term deposits		29	159	134
Property and equipment, net		3,418	18,600	17,981
Prepaid leasehold rights expenses, net		539	2,933	3,002
Intangible assets, net		2,708	14,737	13,781
		6,899	37,543	36,070
		19,362	**105,362**	**101,906**

Haim Shani
Chairman of the Board of Directors
And Chief Executive Officer

Tzvi Livne
Director

Yair Itscovich
Chief Financial Officer

Approved: March 4, 2010

(1) See Note A.

Unitronics (1989) (R"G) Ltd.

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

	Additional information	December 31, 2009	December 31, 2009	December 31, 2008
			(in thousands)	
		Convenience translation into EURO, (unaudited) (1)	NIS	
Current liabilities				
Current maturities of non-current loans		181	986	1,011
Current maturities of bonds and convertible bonds		2,629	14,306	15,930
Accounts payable -				
Trade		1,959	10,654	9,337
Other	D	4,504	24,511	12,654
Warrants		18	100	18
Embedded derivatives		276	1,501	215
		9,567	52,058	39,165
Non current liabilities				
Loans from the banks and others		1,246	6,780	7,228
Convertible bonds		-	-	7,896
Bonds		2,982	16,226	26,046
Liabilities for benefits to employees, net		172	937	803
Provision for loss of subsidiary		54	296	68
		4,454	23,239	42,041
Shareholders' equity				
Share capital		65	352	352
Capital reserve from share-based payments		-	-	326
Share premium		9,294	50,576	50,250
Capital reserve from translation of foreign operations		(137)	(743)	(733)
Company shares held by the company		(579)	(3,150)	(2,931)
Accumulated loss		(3,302)	(17,970)	(26,564)
		5,341	29,065	20,700
		19,362	**105,362**	**101,906**

(2) See Note A.

Unitronics (1989) (R"G) Ltd.

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

	Additional information	For the year ended December 31, 2009 Convenience translation into EURO, (unaudited) (1)	For the year ended December 31, 2009	2008	2007
			(in thousands) NIS		
Revenues		12,645	68,810	64,113	84,256
Revenues from subsidiaries	F1	1,916	10,428	10,686	12,858
Total revenues		14,561	79,238	74,799	97,114
Cost of revenues		9,954	54,165	52,571	68,701
Gross profit		4,607	25,073	22,528	28,413
Development expenses, net		389	2,116	1,617	1,647
Selling & marketing expenses		1,228	6,680	9,057	9,781
General & administrative expenses		1,001	5,447	3,975	5,320
General & administrative expenses to subsidiaries	F1	100	546	533	527
Capital gain		12	63	-	-
Operating profit		1,901	10,347	7,346	11,138
Financing income		989	5,380	286	4,695
Financing expenses		1,281	6,971	10,095	8,741
Profit (loss) for the year		1,609	8,756	(2,463)	7,092
The Company's share of subsidiaries losses		(50)	(274)	(483)	(1,434)
Profit (loss) for the year attributed to the company's shareholders		1,559	8,482	(2,946)	5,658

(1) See Note A.

Unitronics (1989) (R"G) Ltd.

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

	For the year ended December 31,	For the year ended December 31,		
	2009	2009	2008	2007
	(in thousands)			
	Convenience translation into EURO, (unaudited) (1)	NIS		
Profit (loss) for the year attributed to the company's shareholders	1,559	8,482	(2,946)	5,658
Other comprehensive income				
Actuarial gain (loss)	21	112	(894)	341
Translation of foreign operation	(2)	(10)	(149)	(584)
Other comprehensive income (loss) for the year attributed to the company's shareholders	19	102	(1,043)	(243)
Total comprehensive income (loss) for the year attributed to the company's shareholders	1,578	8,584	(3,989)	5,415

(1) See Note A.

Unitronics (1989) (R"G) Ltd.

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

	For the year ended December 31,	For the year ended December 31,		
	2009	2009	2008	2007
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	NIS		
Cash flows from operating activities				
Profit (loss) for the year attributed to the company's shareholders	1,559	8,482	(2,946)	5,658
Adjustments necessary to show the cash flows from operations (Appendix A)	1,844	10,032	14,739	(8,440)
Cash flows provided by operating activities of the company	3,403	18,514	11,793	(2,782)
Cash flows provided by operating activities from transactions with subsidiaries	(278)	(1,514)	4,899	2,233
Cash flows provided by operating activities	3,125	17,000	16,692	(549)
Cash flows from investing activities				
Sale of (investment in) marketable securities, net	2,260	12,298	8,405	(9,030)
Purchase of property and equipment	(419)	(2,281)	(1,047)	(1,956)
Sale of property and equipment	33	180	-	-
Investment in long-term deposits	(31)	(166)	-	(201)
Repayment of long-term deposits	40	218	106	73
Investment in intangible assets	(895)	(4,873)	(7,689)	(8,022)
Cash flows provided by (used in) investing activities	988	5,376	(225)	(19,136)
Cash flows for financing activities				
Repayment of long-term loans	(198)	(1,076)	(1,010)	(1,229)
Repayment of convertible bonds	(1,580)	(8,600)	(10,629)	(10,723)
Early redemption of bonds	(971)	(5,286)	-	-
Early redemption of convertible bonds	(50)	(272)	-	-
Repayment of bonds	(1,077)	(5,858)	-	-
Purchase of company shares by the company	(40)	(219)	(78)	(213)
Cash flows used in financing activities	(3,916)	(21,311)	(11,717)	(12,165)
Change in cash and cash equivalents	196	1,065	4,750	(31,850)
Cash and cash equivalents at beginning of year	2,236	12,167	7,417	39,267
Cash and cash equivalents at end of year	2,432	13,232	12,167	7,417

(1) See Note A.

Unitronics (1989) (R"G) Ltd.

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

	For the year ended December 31,	For the year ended December 31,		
	2009	2009	2008	2007
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	NIS		
Appendix A - Adjustments necessary to show the cash flows from operations				
The Company's share of subsidiaries losses	50	274	483	1,434
Depreciation and amortization	1,255	6,828	5,833	4,183
Loss (profit) from marketable securities, net	(499)	(2,717)	2,512	803
Benefit arising from warrants granted	-	-	3	44
Increase (decrease) in liabilities for benefits to employees, net	45	246	(253)	10
Capital gain	(12)	(63)	-	-
Reevaluation of warrants and conversion option of convertible bonds	15	82	(194)	(2,620)
Exchange rate changes of long-term loans and convertible bonds	303	1,649	1,057	211
Reevaluation of embedded derivatives	236	1,286	215	(103)
Profit from early redemption	(338)	(1,838)	-	-
Decrease (increase) in accounts receivable - trade	(408)	(2,220)	3,583	374
Decrease (increase) in accounts receivable - other	(56)	(304)	(23)	(11,089)
Decrease (increase) in inventory	239	1,298	(459)	774
Decrease (increase) in inventory - work in progress	(1,440)	(7,835)	319	(125)
Increase (decrease) in accounts payable - trade	242	1,317	(3,085)	517
Increase (decrease) in accounts payable - other	2,211	12,029	4,748	(2,853)
	1,844	10,032	14,739	(8,440)

(1) See Note A.

Unitronics (1989) (R"G) Ltd.

Additional information

A. Convenience translation into EURO

For the convenience of the reader, the NIS amounts for the last reported period have been translated into EURO by dividing each NIS amount by the representative rate of exchange of the EURO as at December 31, 2009 (EURO 1 = NIS 5.4417).

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

B. Cash and cash equivalents attributed to the company as a parent company (excluding amounts in respect of subsidiaries)

	US Dollar	Euro	Linked to the Israeli CPI	Linked to other basis	Not linked	Total
	NIS, (in thousands)					
December 31, 2009:						
Cash and cash equivalents	3,242	7,499	-	-	2,491	13,232
December 31, 2008:						
Cash and cash equivalents	2,164	4,718	-	-	5,285	12,167

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

1. The following is a classification of the substantial investments to groups of financial instruments in accordance with IAS 39 attributed to the parent company:

	December 31, 2009	December 31, 2008
	(in thousands) NIS	
Financial assets at fair value through the statement of operations:		
Marketable securities	18,119	27,700
Loans and receivables	17,286	13,247
	35,405	40,947

2. The following table presents the contractual maturities dates of the substantial investments classified to groups of financial instruments in accordance with IAS 39 attributed to the parent company:

December 31, 2009:

	1th year	2th year	3th year	4th year	5th year and after	Total
	NIS, (in thousands)					
Financial assets at fair value through the statement of operations:						
Marketable securities	18,119	-	-	-	-	18,119
Loans and receivables	17,286	-	-	-	-	17,286
	35,405	-	-	-	-	35,405

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

2. The following table presents the contractual maturities dates of the substantial investments classified to groups of financial instruments in accordance with IAS 39 attributed to the parent company: (cont'd)

December 31, 2008:

	1th year	2th year	3th year	4th year	5th year and after	Total
	NIS, (in thousands)					
Financial assets at fair value through the statement of operations:						
Marketable securities	27,700	-	-	-	-	27,700
Loans and receivables	13,247	-	-	-	-	13,247
	40,947	-	-	-	-	40,947

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

December 31, 2009:

	US Dollar	Euro	Linked to the Israeli CPI	Linked to other basis	Not linked	Total
	NIS, (in thousands)					
Financial assets at fair value through the statement of operations:						
Marketable securities	1,047	-	11,280	-	5,792	18,119
Loans and receivables	1,460	6,222	-	-	9,604	17,286
	2,207	6,222	11,280	-	15,396	35,405

December 31, 2008:

	US Dollar	Euro	Linked to the Israeli CPI	Linked to other basis	Not linked	Total
Financial assets at fair value through the statement of operations:						
Marketable securities	2,593	-	12,576	-	12,531	27,700
Loans and receivables	639	4,076	-	-	8,532	13,247
	3,232	4,076	12,576	-	21,063	40,947

Unitronics (1989) (R"G) Ltd.

Additional information

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

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

	December 31, 2009	December 31, 2009	December 31, 2008
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Employees, payroll and taxes	395	2,148	2,763
Provision for vacation	53	289	353
Accrued expenses	1,075	5,849	5,433
Prepaid income	172	938	538
Advances from costumers	2,809	15,287	3,567
	4,504	24,511	12,654

2. Instability risks attributed to the parent company

The liquidity risk is the risk that the Company will not be able to meet its financial obligations when they fall due. The Company's approach to management of the liquidity risk is to ensure, as far as possible, a sufficient level of liquidity to meet its obligations in due time.

The Company operates in order to enable the existence of sufficient levels of liquid means to pay the expected operating expenses and amounts required to meet its financial obligations. This does not take into account the potential effect of extreme scenarios where there is no reasonable possibility to expect them.

The following table presents the contractual maturities dates of the financial liabilities:

December 31, 2009:

	1th year	2th year	3th year	4th year	5th year and after	Total
				NIS, (in thousands)		
Accounts payable - trade	10,654	-	-	-	-	10,654
Accounts payable - other	8,199	-	-	-	-	8,199
Loans from banks and others	986	999	1,008	1,018	3,755	7,666
Convertible bonds	8,600	-	-	-	-	8,600
bonds	5,897	5,897	5,897	5,899	-	23,590
	34,336	6,896	6,905	6,917	3,755	58,809

December 31, 2008:

	1th year	2th year	3th year	4th year	5th year and after	Total
Accounts payable - trade	9,337	-	-	-	-	9,337
Accounts payable - other	8,364	-	-	-	-	8,364
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	39,900
	34,642	16,834	8,084	8,084	11,696	79,340

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

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

December 31, 2009:

	US Dollar	Euro	Linked to the Israeli CPI	Linked to other basis	Not linked	Total
			NIS, (in thousands)			
Financial liabilities measured at reduced cost	13,211	4,182	22,578	-	17,267	57,238
Financial liabilities at fair value through the statement of operations	-	-	100	-	-	100
	13,211	4,182	22,678	-	17,267	57,338

December 31, 2008:

	US Dollar	Euro	Linked to the Israeli CPI	Linked to other basis	Not linked	Total
Financial liabilities measured at reduced cost	18,199	1,123	33,333	-	16,114	68,769
Financial liabilities at fair value through the statement of operations	-	-	18	-	-	18
	18,199	1,123	33,351	-	16,114	68,787

E. Disclosure of taxes on income attributed to the company itself

1. Tax laws applicable to the company itself

A. Income Tax Law (Adjustments for Inflation) – 1985

According to the law, up to the end of 2007, the results for tax purposes were measured after being adjusted to changes in the consumer price index.

In February 2008, the Knesset passed the amendment to the Income Tax Law (Adjustments for Inflation) – 1985, which restricts the Adjustments Law from 2008 and thereafter. As from 2008, the results for tax purposes are measured in nominal amounts, excluding certain adjustments for changes in the consumer price index during the period of up to December 31, 2007. The amendment to the law includes, inter alia, the cancellation of the addition and the deduction for inflation and additional deduction for depreciation as from 2008.

B. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969.

The Company currently qualifies as an "Industrial Company" under the above law. As such, it is entitled to certain tax benefits, mainly the right to deduct share issuance costs for tax purposes in the event of a listing in a stock exchange, and to amortize know-how acquired from third parties.

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

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

C. On November 1999 the Company filed an application for Approved Enterprise status, with respect to investments in developing Internet based Programmable Logic Controllers. The Company has applied to participate in the Alternative Benefit Program under which a full tax exemption is available on its taxable profits attributable to the specific program approved during the first 2 years of the Benefit Period, as well as a Company Tax rate of 25% during the 5 years thereafter. The application was approved on June 2000. 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.

The period of tax benefits, detailed above, is subject to a time limit of the earlier of 12 years from the commencement of production, or 14 years from receiving the approval.
In the event of a distribution of cash dividends from income which is tax exempt due to the above, the Company would have to pay Company tax on the amount distributed.

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.

2. Tax rates applicable to the company itself

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%.
On July 23 2009 the economic efficiency law was published (legislation amendments for implementation of the economic plan for the years 2009 and 2010), 2009, that determined, among other things, additional gradual reduction of cooperate income tax starting from 2011 and forth: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and forward - 18%.

3. Final tax assessments attributed to the company itself

The Company has final tax assessments for all years up to December 31, 2005.

4. Tax losses attributed to the company itself

As at December 31, 2009 the company's tax loss carry forward (where deferred taxes were not recognized) amounts to approximately NIS 19 million (EURO 3.5 million).

Unitronics (1989) (R"G) Ltd.

Additional information

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

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

	For the year ended December 31,	For the year ended December 31,		
	2009	2009	2008	2007
	Convenience translation into EURO, (unaudited)	(in thousands) NIS		
Profit (loss) before taxes on income	1,559	8,482	(2,946)	5,658
Tax rate (%)	26	26	27	29
Theoretical tax	405	2,205	(795)	1,641
Increase in taxes resulting from non-deductible expenses	63	343	59	131
Temporary differences where deferred taxes were not recognized	(468)	(2,548)	736	(1,952)
Inflation adjustments and others	-	-	-	180
	-	-	-	-

F. Loans, balances and substantial engagements with subsidiaries

1. Transactions with subsidiaries

	For the year ended December 31,	For the year ended December 31,		
	2009	2009	2008	2007
	Convenience translation into EURO, (unaudited)	(in thousands) NIS		
Revenues	1,916	10,428	10,686	12,858
General & administrative expenses	100	546	533	527

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

2. Engagements with subsidiaries

a. The consolidated company Unitronics Inc. was established by the Company in 2001 to market, sell and distribute the company's products and to operate projects in the United States. The consolidated company acquires products and services from the company and sells these products and services to its customers.

b. The consolidated company Unitronics building management and maintenance (2003) Ltd. was established by the Company in 2003 in order to manage and mainten the companies building. The company pays to the consolidated company management and maintenance fees for the area used by the company.

3. Loans

The company provided a loan of NIS 8 million to the consolidated company Unitronics Inc. The loan is linked to the Israeli NIS and does not bear interest. The loan have no repayment date. In addition there is ongoing balance of the consolidated company as at December 31, 2009 in the amount of approximately NIS 5.8 million (approximately NIS 4.3 million as at December 31, 2008).

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 date of the statement of financial position:

Subsidiary	**Class of Share**	**No. of Shares**	**Total Par Value**	**Value of Shares in the Financial Statement**
Unitronics House Management and Maintenance (2003) Ltd.	Ordinary - NIS 1	1,000	NIS 1,000	NIS 1,000
Unitronics Inc. (foreign company)	Ordinary – US$ 0.01	1,000	US$ 10	US$ 10

Subsidiary	**Value in the separate financial statement of each corporation attached to the Company's financial statements**	**Share of Company's holdings in capital, in voting and in power to appoint directors out of the total issued shares**
	NIS in thousands	
Unitronics House Management and Maintenance (2003) Ltd.	(295)	100%
Unitronics Inc. (foreign company)	(6,902)	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 comprehensive income of the Company's active subsidiaries and its related companies in the last reported year that ended on or before the date of the statement of financial position of the corporation, adjusted to the date of the statement of financial position of the corporation:

Subsidiary	Profit (Loss) Before Tax	Profit (Loss) After Tax	Dividend	Management Fees	Interest Revenues
NIS in thousands					NIS in thousands
Unitronics House Management and Maintenance (2003) Ltd.	(226)	(226)	-	-	-
Unitronics Inc.	(133)	(133)	-	-	-

The Company did not receive any dividend, interest or management fees up to the date of the statement of financial position or for the period thereafter, and it is not entitled to receive any such dividend, interest or management fees.

4.5 List of Loans (Reg. 14)

Not applicable (the provision of loans is not part of the Company's core business).

4.6 Trading on the Stock Exchange (Reg. 20)

During the reported year no securities issued by the Company were listed for trading on the Stock Exchange, and there was no suspension of trading on the Stock Exchange in issued securities of the Company.

The Company holds a total of 1,079,823 dormant shares; these dormant shares do not vest the Company with any rights (including voting rights and/or rights in capital). (For details see section 1.4.2 above and section 4.9 below.)

On December 1, 2009 an agreement was concluded between the Company and Leleux Associated Brokers S.A. ("**Leleux**"), which had served in the position of market maker of the Company in Belgium, terminating the relations between the parties, the main principles being the payment by the Company to Leleux of 12,000 euros for past services of Leleux and the joint waiver of any liability under the market making agreement that was concluded between the Company and Leleux upon the listing of the Company's shares for trading on the Euronext Stock Exchange in Brussels, Belgium.

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, as recognized in the financial statements for the reported year, including with regard to retirement terms, for each of the five officers receiving the highest pay from among the Company's senior officers in that year:

Name	Position	Scope of Position	Holding Rate in Corporate Capital	Pay (NIS thousands)	Bonus	Share-Based Payment	Management Fees	Commission	Interest	Rent	Other	Total (NIS thousands)
Haim Shani	CEO and Chairman of Board of Directors	100%	57.94%	937	689							1,626
Amir Anchel	General Manager of Systems Division	100%		579								579
Bareket Shani	Deputy CEO and Human Resources Manager	100%		555								555
Alon Kedar	Deputy CEO & General Manager of Products Division	100%		509								509
Uri Kleiner	Manager of System Sales	100%		485								485
	Other directors			127								127

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, each 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 Human Resources Manager.

On April 12, 2005, the General Meeting of Company 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 years leading up to 2004 in general, and in 2004 in particular. In addition, the General Meeting of Company 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 (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 gross monthly salary of $15,000, plus the Future Bonuses (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 CEO.

On May 21, 2008, the Audit Committee and Board of Directors resolved to approve the extension of each of the aforementioned existing 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. Haim 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 immediate report concerning a transaction with a controlling shareholder or director that does not require the approval of the General Meeting, dated May 21, 2008, Reference No. 141630-01-2009.)

On May 21, 2009, the Audit Committee and Board of Directors resolved to approve a unilateral waiver by each of Mr. Shani and Ms. Shani of 15% of their salary and fringe benefits. The waiver applies to salary, executive insurance and continuing education fund, but does not apply to company car, reimbursement of expenses, options, annual bonus and annual vacation as well as to social benefits not involving salary, executive insurance and continuing education fund. The duration of the waiver is six months beginning from the salary of May 2009, at the end of which the salary and fringe benefits will revert to their level preceding the waiver. The Audit Committee and Board of Directors determined in their resolution that the approval of the unilateral waiver for a six month period as stated complies with regulation 1B(1) of the Companies Regulations (reliefs in transactions with interested parties), 5760-2000, namely that the sole purpose of the transaction is to benefit the Company. It is clarified that as regards Mr. Shani, the waiver is solely in respect of the part of the salary that is paid by the Company, and not in respect of the part paid by the subsidiary Unitronics Inc. (For further details see immediate report concerning a transaction with a controlling shareholder or director that does not require the approval of the General Meeting, dated May 21, 2009, Reference No. 117396-01-2009.)

4.7.3 Mr. Alon Kedar – On May 3, 1999, an employment agreement (in this section: the "**Agreement**") was signed between the Company and Mr. Alon Kedar for an unspecified period, and it was stipulated that a 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 sales of the Company's principal PLCs (after deduction of certain third-party commissions), provided the bonus does not exceed an amount in shekels equivalent to US$ 120,000, gross, per year. It was further stipulated in the Agreement that Mr. Kedar is entitled to the following fringe benefits (on gross salary basis): contributions to executive insurance policy, pension fund and continuing education fund and use of a company car. In addition, Mr. Kedar is entitled under the Agreement to social benefits (vacation days, sick days and convalescence pay).

4.7.4 Mr. Amir Anchel – On September 25, 2001, an employment agreement (in this section: the "**Agreement**") was signed between the Company and Mr. Amir Anchel. The Agreement was made for an unspecified period, and it was stipulated that a party thereto may terminate it at any time by giving 30 days' advance notice in writing.

Mr. Anchel's gross salary is calculated according to NIS 30,000, gross, per month of work. It was further stipulated in the Agreement that Mr. Anchel is entitled to the following fringe benefits: contributions to the executive insurance policy, pension fund and continuing education fund and use of a company car. In addition, In addition, Mr. Anchel is entitled under the Agreement to social benefits (vacation days, sick days and convalescence pay).

4.7.5 Mr. Uri Kleiner – On May 1, 2008, an employment agreement (in this section: the "**Agreement**") was signed between the Company and Mr. Uri Klein. The Agreement was made for an unspecified period, and it was stipulated that a party thereto may terminate it at any time by giving 30 days advance notice in writing.

Mr. Kleiner's gross salary is calculated according to NIS 29,900, gross, per month of work. It was further stipulated in the Agreement that Mr. Klein is entitled to the following fringe benefits: contributions to executive insurance policy, pension fund and continuing education fund and use of a company car. In addition, Mr. Klein is entitled under the Agreement to social benefits (vacation days, sick days and convalescence pay).

4.7.6 According to a resolution of the Audit Committee and Board of Directors, approved by the Annual General Meeting of Company Shareholders on August 9, 2001, the Company's outside directors and directors who do not serve as officers at the Company are entitled to annual compensation and participation compensation at the "fixed amount" specified in the Second and Third Schedules to 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 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, this being the "fixed amount" specified 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 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 (Scope) that the compensation may be changed in respect of outside directors who have served for five months since the date of publication of said amendment. The Board of Directors and Audit Committee further determined that the decision to raise the amount of compensation stemmed from the fact that Mr. Baraz and Mr. Mishael demonstrate dedication and devote their time and energy for the good of the Company, constituting a central pillar and an integral part of the Company and the reasons for its success, and the "fixed amount," as amended, constitutes appropriate compensation for their work on behalf of the Company. It should be noted that on December 15, 2008, Ron Mishael ceased to serves as an outside director of the Company.
(For further details, see immediate report concerning a transaction with a controlling shareholder or director that does not require the approval of the General Meeting, dated May 21, 2008, Reference No. 141627-01-2009.)

On July 1, 2008, the Board of Directors approved annual compensation and participation compensation for Mr. Joel Sela, subject to his being appointed an outside director of the Company by the General Meeting, at the "fixed amount" specified 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. Joel Sela as an outside director was approved by the General Meeting.
(See immediate report concerning the results of a meeting, dated September 24, 2008, Reference No. 004717-01-2008.)

4.7.7 On May 21, 2008, the Board of Directors and Audit Committee approved raising the annual compensation and participation compensation for Mr. Zvi Livne, a director of the Company, to NIS 25,000 and NIS 1,590, respectively, this being the "fixed amount" specified 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 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 Section 1A of the Companies Regulations (Reliefs in Transactions with Interested Parties), 5760-2000 (the "**Reliefs Regulations**"), which provides that the entering of a publicly traded company into an agreement with a director as regards terms 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 ascribes 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 "fixed 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 strikes a proper balance between the Company's ability, under certain conditions, to grant higher compensation to someone who is not an outside director, and the compensation paid to outside directors, as well as their belief that this compensation represents an appropriate consideration for Mr. Livne's vital services (for details, see immediate report on a transaction with a controlling shareholder or director that does not require the approval of the General Meeting, dated May 21, 2008, Reference No. 141624-01-2008).

On July 3, 2007 the Annual General Meeting of Company Shareholders approved the resolutions of the Board of Directors from March 25, 2007 concerning Mr. Moshe Baraz, an outside director of the Company, with respect to granting him indemnification under an indemnification permit as provided in the Company's Articles of Association, the inclusion of Mr. Baraz under the insurance cover for directors and officers of the Company, and in addition it approved the granting of annual compensation and participation compensation (for details see amending report dated March 31, 2007, Reference No. 354083-01-2007, 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 meeting, published on July 3, 2007, Reference No. 313657-01-2007).

On September 23, 2008, the General Meeting of Company Shareholders approved the resolutions of the Board of Directors from July 1, 2008, concerning Mr. Joel Sela, an outside director of the Company, with respect to granting him indemnification under an indemnification permit as provided in the Company's Articles of Association, the inclusion of Mr. Sela under the insurance cover for directors and officers of the Company, and it also approved the granting of annual compensation and participation compensation (for details, see immediate report on the results of a meeting, published on September 24, 2008, Reference No. 004717-01-2008).

4.7.8 The Company has a directors and officers liability insurance policy for a sum of US$ 5,000,000 (five million US dollars) per event and in total, in respect of damages that could occur during the insurance period (and a further US$ 1,000,000 in respect of legal defense costs in Israel). The Company's deductible in respect of claims filed in the USA and in Canada is US$ 50,000 per event. The insurance period is effective retroactively from August 9, 1989, and is renewed each year, with the approval of the Company's management, which was authorized by the General Meeting on April 12, 2005 to renew the Company's officers and directors liability insurance policy from time to time, under similar conditions, for additional periods of up to 18 months each time.

OnMarch 4, 2010,, the Audit Committee and Board of Directors approved the renewal of the policy once again for a period of 18 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 4, 2010, Reference No. 2010-01-404205).

4.7.9 The Company's Articles permit indemnification and exemption of officers, to the maximum extent permitted by the Companies Law (for details see section 4.17.2).
On May 9, 2006, the General Meeting approved: (a) indemnification and exemption of officers serving from time to time in the Company and/or in another company (except for officers who are controlling shareholders of the Company), as per the provisions of the indemnification letter attached as Appendix B to the report on a transaction with a controlling shareholder, published on March 27, 2006 ("**Indemnification Letter**"), and issuance of an Indemnification Letter to such officers; and (b) approval of indemnification and exemption of Mr. Haim Shani and Ms. Bareket Shani, the controlling shareholder of the Company and his wife, according to the provisions of the Indemnification Letter, and issuance of an Indemnification Letter to Mr. Haim Shani and Ms. Bareket Shani.

Pursuant to the above resolutions, the Company issued on May 18, 2006 Indemnification Letters as per the above to officers of the Company, including Mr. Haim Shani and Ms. Bareket Shani, the controlling shareholder of the Company and his wife. On March 25, 2007 the Company issued a further Indemnification Letter as per the above to Mr. Moshe Baraz, who began serving as an outside director of the Company on December 8, 2006, and on December 3, 2008, the Company issued a further Indemnification Letter as per the above to Mr. Joel Sela, who began serving as an outside director on September 23, 2008 (or further details see section 4.7.7 above).

4.7.10 Salary and Benefits

Below are details, to the best of the Company's knowledge, of the benefits received by each of the interested parties in the Company, directly or indirectly, or benefits which he is entitled to receive from the Company, from a subsidiary, or from a related company, in the reported year:

During the reported period, the Company paid interested parties employed by it a total amount in NIS thousand (including related payments), according to the following breakdown:

Interested Party	**Paid by Balance Sheet Date** **NIS in thousands**
Haim Shani	1,633
Bareket Shani	555
Other directors	127

4.8 Transactions with Interested Parties (Reg. 22)

4.8.1 As per a resolution of the Audit Committee and Board of Directors from 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 in Unitronics House (contacting various suppliers in case of malfunction and/or for servicing and/or periodic testing, as per manufacturer's/supplier's instructions) as well as provision of cleaning, pest control, gardening and security services (via subcontractors). In return for these services, Unitronics Management charges monthly management fees at a rate of NIS 9.5 per square meter of each tenant's space in Unitronics House, and in addition charges separately for electricity consumption according to readings of separate meters for Unitronics and for the other tenants in 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 in Unitronics House, leased by a company wholly owned by Mr. Haim Shani and Mrs. Bareket Shani. There is no written contract between Unitronics and Unitronics Management, and Mr. and Mrs. Shani, with regard to the management services. In actual fact, Mr. and Mrs. Shani require the tenants leasing the Private Floors (including the Company) to pay the full management fees charged by Unitronics Management, and said tenants pay Unitronics Management directly for management services at the same rate per square meter paid by Unitronics (other than consumption of electricity, for which each tenant is charged according to his own separate electricity meter).

For these services, Unitronics Management was paid in total NIS 1,226 thousand, NIS 1,238 thousand and NIS 1,035 thousand for the years 2007, 2008 and 2009 respectively; of which NIS 527 thousand, NIS 533 thousand and NIS 546 thousand, respectively, were paid by the Company, and NIS 699 thousand, NIS 705 thousand and NIS 489 thousand, respectively, by third parties. The decrease in revenues from third parties resulted from the termination of leasing agreements for certain areas, which in part where leased to the Company (see Section 4.8.2 below), and in part were not leased for a certain period and therefore did not generate revenues to the Company.

4.8.2 At the end of July 2009, an agreement terminated under which the Company had leased an area of approximately 632 square meters in the building called Unitronics House from a company controlled by Mr. Haim Shani, the controlling shareholder of the Company, who serves as Chairman of the Board of Directors and Company CEO, and Ms. Bareket Shani, his wife, who serves as a director and the Human Resources Manager of the Company (the "**Lessor**").

On May 21, 2009, the Board of Directors and Audit Committee approved, subject to the approval of the Shareholders General Meeting, the signing of a new lease agreement with the Lessor for the lease of 936 square meters of office space in Unitronics House, as well as 20 parking spaces.

According to the terms of the agreement, the monthly rent amounts to NIS 65 per square meters, linked to the Israeli Consumer Price Index, but not lower than the known index on the date of signing of the agreement (in addition to a monthly management fee of NIS 5 per square meters for Airport City, and a monthly management fee of NIS 9.5

per square meters to the Company's subsidiary Unitronics House Management and Maintenance (2003) Ltd., which provides management and maintenance services for Unitronics House). The rental fee for the parking spaces is NIS 250 per parking space (and a total of NIS 5,000 per month for 20 parking spaces). The aggregate cost of the lease to the Company under the agreement is approximately NIS 85 thousand per month, linked (except parking spaces and management fees) to the Israeli Consumer Price Index, but not lower than the known index on the date of signing of the agreement.

According to the agreement, the lease is for a period of 36 months commencing August 1, 2009, terminable upon 3 months' prior notice at any time pursuant to a resolution of the Audit Committee.

Among their reasons for approving the transaction, the Audit Committee and Board of Directors determined that the growth in the Company's activity, including the employment of additional personnel, has created a need for leasing additional space. Approval of the above transaction will enable the Company to lease additional space in the quickest and most efficient manner, under the same roof, without moving expenses and/or expenses due to a split in activity among several facilities.

According to examinations conducted by the Company and presented to the Audit Committee and Board of Directors, the rental terms are similar to the terms at which other areas owned by the Lessor in Unitronics House are leased to third parties that are not related to the Company or to the Company's controlling shareholders, and are also better than customary rental terms (price/period) in general at Airport City for areas of similar or inferior finishing level offering similar and/or inferior general services, which to the best of the Company's knowledge are being leased at the time of this report at prices ranging between NIS 60 and NIS 67 per square meter (not including management fees). In addition, the option to terminate the agreement at any time allows the Company to adjust the use to its actual needs.

The Audit Committee and Board of Directors have determined that the transaction is at market conditions and is in the ordinary course of business and that it is not detrimental to the Company.

On July 29, 2009, the General Meeting of Company Shareholders approved the aforesaid rental transaction.

(For further details see immediate report on an event or matter outside the ordinary course of the corporation's business, dated May 21, 2009 – Reference No. 117399-01-2009, immediate report on the results of a meeting for approval of a transaction with a controlling shareholder and/or for approval of a private offer, dated July 29, 2009 – Reference No. 182700-01-2009, and immediate report on the results of a meeting, dated July 29, 2009 – Reference No. 182697-01-2009.)

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 before the Company became 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 in a nonmaterial amount, whose cost to the Company amounted in 2009 to about NIS 35 thousand.

4.8.4 On April 12, 2005, the General Meeting of Company 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 starting in 2005 (for details regarding the bonus for the years 2006 and 2007, see sections 1.14.4 and 4.7.2. above).

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 in the Company as of the report date:

In the Company:

Name of Holder	Ordinary Shares	Warrants (Series 1)	Options (non-negotiable)	Share in issued capital	Share in voting	Share in issued capital	Share in voting
				Undiluted		Fully diluted	
Haim Shani [2]	6,139,551			57.94%	57.94%	49.66%	49.66%
Unitronics (1989) (RG) Ltd.*[5]	1,079,823			10.19%	0	8.73%	0

* Buybacks of Company shares (creation of dormant shares in the Company's share capital)

Beginning in August 2005, the Company purchases, from time to time, ordinary shares of the Company within the framework of trade on the Tel Aviv Stock Exchange. As of December 31, 2009, the Company holds a total of 753,091 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 3.15 million and at prices of between NIS 0.3 and NIS 5.5 per share. Up to the date of this report, an additional 326,732 shares were purchased by the Company for a total sum of approximately NIS 1,130 thousand and at an average price of NIS 3.5 per share. The Company holds a total of 1,079,823 shares that were purchased as aforementioned. 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 further 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).

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2 These shares also include 50 Company shares held through Corpus Colossum Ltd., a private company registered in Israel, in which Mr. Shani holds all issued share capital and voting rights.

These shares are held by Interprofessionelle Effeotendeposito - en Girokas N.V. - Caisse Interprofessionelle de Depots et de Virements de Titres S.A. ("**CIK**") which is registered in the Company shareholder registry as the owner of the shares. To the best of the Company's knowledge, according to practice in Belgium and to CIK regulations, this entity serves as a registry and clearing house in Belgium, with shares of companies traded on the stock exchange in Belgium deposited with it under a global power of attorney, and the various trading transactions in shares made by banks, brokers and other authorized persons on the stock exchange recorded in its books. CIK thus fulfills a role essentially similar to that of nominee companies in Israel, whereby the shares of companies traded on the stock exchange in Belgium are registered through it. Shareholders who purchase Company shares on the stock exchange in Belgium transact the buying (or selling) via a securities account managed in their name at financial institutions (brokers, banks etc.) which are, directly or indirectly, members of the CIK system. The Company is unaware of other interested parties besides those listed above.

5 On January 8, 2009, the Company executed, with the approval of the Board of Directors, a self-purchase, 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.)

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 1,079,823 dormant shares; these dormant shares do not entitle the Company to any rights (including voting rights and/or rights in capital).

4.10.2 Convertible Securities - General

The Company's capital includes convertible securities as follows:

(a) NIS 8,600,000 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 concerning repayments of bonds (Series 1), see section 1.4.7 above.

(b) NIS 21,520,000 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} days 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 an exercise price of NIS 5.00, linked to the Consumer Price Index, but no less than NIS 5.00.

(d) 210,000 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 two option plans, the 2001 Plan and the 2003 Plan (as defined below), the main terms of which are as follows:

(a) 2001 Option Plan

An option plan from May 2001 (the "**2001 Plan**") for employees, officers and consultants of the Company or the Company's subsidiaries, which includes a framework for the purchase of 950,000 ordinary shares until 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, pursuant to 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 that will become available once more for granting under the plan, approval for listing such shares for trade was not sought or received from the Stock Exchange. The grant of such options is subject to all required legal approvals, including approval of the Stock Exchange for listing the shares underlying such options for trade.

(b) 2003 Option Plan

An option plan from November 2003 (the "**2003 Plan**"), which complies with the provisions of Section 102 of the Israeli Income Tax Ordinance (New Version), including as amended in Amendment No. 132, dated January 1, 2003 (in this section: the "**Ordinance**"). The 2003 Plan is intended for employees and/or officers of the Company, its subsidiaries and/or parent company, who are not controlling shareholders, and includes a framework for the purchase of 1,000,000 ordinary shares until the year 2013. The options according to the 2003 Plan are granted under the "capital track" (as defined in Section 102(b)(2) of the Ordinance), they will be held in trust for at least 24 months from the tax year in which they were granted, the profit from the sale of the underlying shares will be taxed at a rate of 25% only (instead of the marginal tax rate applicable to the offeree), and the Company will not be able to recognize the options as an expense. The exercise price of the options granted under the 2003 Plan will be no less than the par value of the shares underlying the options. Options cancelled or not exercised within the timeframe specified for exercising them will become available once 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, 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 397,000 shares have expired unexercised as per their terms up to 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 period (one third of options vesting after 2, 3 and 4 years from the date of grant, respectively).

In April 2007 options to purchase 210,000 ordinary shares were allotted 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 vesting periods.

On May 31, 2009, 10,000 Company employee options (Unitronics 5/04 – employee options) granted to Ron Mishael, who served as an outside director of the Company, expired (for details see immediate report on change in the corporation's issued capital, dated May 31, 2009, Reference No. 2009-01-127875).

The remaining options to purchase 498,000 shares grantable, as of the report date, under the 2003 Option Plan and exercisable into 498,000 Company shares have been transferred to a trustee on behalf of the Company, and are intended to be granted from time to time to employees who are not interested parties by virtue of their holdings (alone) in the Company and/or its subsidiaries, as per instructions of the Board of Directors which will also be authorized to determine and change at the time of every such grant the exercise price, vesting period, exercise period and other option terms applying to any option granted as aforementioned (see further details in section 4.10.4 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 report date:

Type of convertible security / option plan	**Framework of ordinary shares of NIS 0.02 par value each that were reserved for allotment / conversion**	**Amount of shares underlying securities that were actually allotted / granted out of the framework by the report date**	**Date of allotment / issuance**	**Amount of shares underlying securities that expired / were paid by the report date**	**Amount of shares receivable in the future for exercising options that were actually allotted / granted as of the report date (vested / non-vested)**	**Amount of shares exercisable (vested) / convertible as of the report date**	**Exercise price / conversion ratio**	**Expiration date**
Bonds (Series 1)[6]	3,888,889	0	19.5.04	2,933,334		955,555	9 bonds per share	9.5.2010
Warrants (Series 2)[7]	600,000	0	27.8.06			600,000	NIS 5.00	28.8.2010
2001 Plan[8]	950,000	-	-	-	-	-	-	-
2003 Plan[9]	1,000,000	105,000	10.6.07	0	105,000	105,000	€ 1.30	31.08.11
		105,000	10.6.07	0	105,000	105,000	€ 1.30	31.08.12[10]
		498,000 [11]				0		
Total	6,438,889				210,000	1,765,555		

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 financial expertise or professional qualifications; (7) is he an employee of the Company, of a subsidiary, of a related company or of an interested party in the Company - the position or positions which 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 professions or fields in which the education was acquired, the institution in which it was acquired, and the academic title or professional diploma he holds, and detailing the corporations in which he serves as a director; (10) is he, to the best of the knowledge of the

6 For details see section 1.19.4 above.
7 For details see section 4.10.2 above.
8 For details see section 4.10.3b above. All the options allotted in the framework of this plan have expired.
9 For details see section 4.10.3c above.
10 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.
11 Options under the 2003 Option Plan transferred to a trustee as stated in section 4.10.3c above.

Company 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 minimum number determined by the 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[12]; (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 expertise; (6) No; has accounting and financial expertise 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 in 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, member of the Audit Committee and of the Securities Committee, has accounting and financial expertise as well as professional qualifications; (6) Yes; has accounting and financial expertise as well as professional qualifications; (7) No; (8) December 8, 2006; (9) Academic - B.Ed. from the College of Management. Served as VP, Finance at the advertising firm of 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) Yes.

(e) (1) Joel Sela; (1a) 0515621552; (2) April 21, 1953; (3) 66 Nurit St., Shoham; (4) Israeli; (5) Director, member of the Audit Committee and of the Investments Committee, has accounting and financial expertise as well as professional qualifications; (6) Yes; has accounting and financial expertise as well as professional qualifications; (7) No; (8) September 23, 2008; (9) Academic. B.A. in economics and accounting from Tel Aviv University. CEO of Net Intent Ltd. from February 2001. Many years of experience as CFO and CEO of companies in diverse fields; (10) No; (11) Yes.

[12] Regarding this matter see Section 4.16.7 below.

4.11.1 Directors with Accounting Expertise: At a meeting of the Board of Directors held on March 18, 2004, the Board of Directors determined that the appropriate minimum number of directors of the Company with accounting and financial expertise, 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 expertise out of five members of the Board of Directors serve at the Company, namely, Mr. Zvi Livne (who is a CPA by training and by profession today), Mr. Moshe Baraz (who is a CPA by training and serves as VP and CFO), and Mr. Joel Sela (who holds a B.A. in economics and accounting and serves as CEO).

4.12 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 an interested party in the Company - yes/no (5) his education and business experience in the last five years, specifying the professions or fields 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 permanent 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 the North American Congress in May 2004.

4.13 Authorized Signatories (Reg. 26b)

On January 15, 2008, the 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 the authorized signatories on behalf 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 Itscovich, 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, Income Tax and VAT forms, documents of engagement with cellular companies and engagement documents pertaining to motor vehicle leasing, but excluding the use of cashable instruments, which Mr. Itscovich is not authorized 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 on the Company's balance sheet, in 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 authorized to sign, including in connection with the aforesaid.

d. The signature of Mr. Haim Shani, Ms. Bareket Shani, Mr. Yair Itscovich and Mr. Eyal Saban, each separately, together with the Company stamp or its printed name, will bind the Company in any matter relating to the publication of reports to which the Company is obligated 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 on an event or matter outside the ordinary course of the corporation's business, dated January 16, 2008, Reference No. 018033-01-2008.)

4.14 Corporation's Independent Auditor (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 Extraordinary General Meeting (Reg. 29)

4.16.1 On May 21, 2009, the Audit Committee and Board of Directors resolved to approve a unilateral waiver by each of Mr. Shani (the controlling shareholder and Chairman of the Board of Directors) and Ms. Shani (Mr. Shani's wife, who serves also as a member of the Board of Directors) of 15% of their salary and fringe benefits (for details see section 2.7.2 and immediate report concerning a transaction with a controlling shareholder or director that does not require the approval of the General Meeting, dated May 21, 2009, Reference No. 117396-01-2009).

4.16.2 On May 21, 2009, the Board of Directors and Audit Committee approved, subject to the approval of the Shareholders General Meeting, the signing of a new lease agreement with the Lessor for the lease of 936 square meters of office space in Unitronics House, as well as 20 parking spaces. On July 29, 2009, an extraordinary General Meeting of Company Shareholders approved the aforesaid rental transaction.

(For further details see section 4.8.2 above and immediate report on an event or matter outside the ordinary course of the corporation's business, dated May 21, 2009 –

Reference No. 117399-01-2009, immediate report on the convening of a General Meeting, dated June 18, 2009, immediate report on the results of a meeting for approval of a transaction with a controlling shareholder and/or for approval of a private offer, dated July 29, 2009 – Reference No. 182700-01-2009, and immediate report on the results of a meeting, dated July 29, 2009 – Reference No. 182697-01-2009.)

4.16.4 On December 7, 2009, the Board of Directors approved the adoption of a buyback plan for shares of the Company (in this Section, the "**Plan**"). Under the Plan, the Board of Directors has approved the purchase, from time to time, during trading on the Tel Aviv Stock Exchange or the Euronext exchange in Belgium, or directly from unrelated parties, of shares of the Company for not more than NIS 1.75 million (including expenses connected with the execution of the purchase, such as fees of consultants and service providers in connection with the purchase, thus the expected cost of the plan stands at up to NIS 1.75 million). The Company's management has been authorized to set the times for effecting the purchases and the prices of the shares to be purchased, in each individual case. The Board of Directors' approval for implementing the plan is effective until March 31, 2010. The Company does not anticipate any tax implications for it or its shareholders from the implementation of the plan, except for sellers of the shares, for whom there could be tax implications according to the personal tax applying to them. The source of the financing for the plan is the cash flow from current operations.

After having considered, examined and made a conservative analysis of the financing sources available to the Company for repaying its existing and future debts and obligations, as well as the Company's balance of cash based on its financial statements, the Company's expected cash flows according to the Company management review, as well as the prices of the Company's share on the Stock Exchange, which the Board of Directors believes present an opportunity for purchasing the shares in order to create a reserve (as dormant shares) in the interests of future financial transactions, the Board of Directors determined that, in its opinion, approval of the plan is right and proper in light of the Company's performance in the last two years, for the purpose of building the investor public's confidence in the Company. Profit criterion: Following a conservative examination of the Company's most recent audited and/or reviewed financial statements, including purchases of securities of the Company made during the examined period, the Board of Directors determined that the Company's profits, within the meaning of this term in Section 302 of the Company's Law, stand at NIS 5,850 thousand. Accordingly, the Board of Directors determined that approval of the plan satisfies the conditions of the profit criterion. Ability-to-pay criterion: In the opinion of the Board of Directors, there is no reasonable fear that the plan will deprive the Company of its ability to meet its existing and anticipated obligations when they become due, and therefore approval of the plan satisfies the conditions of the ability-to-pay criterion. (For details concerning the approval of the buyback plan as well as the Board of Directors' reasons for approving it, see immediate report on an event or matter outside the ordinary course of the corporation's business, dated December 7, 2009, Reference No. 312105-01-2009).

4.16.5 On March 4, 2010, the Board of Directors approved the adoption of a new buyback plan for shares of the Company (in this Section, the "**Plan**"). Within the framework of the Plan, the Board approved acquisitions of Company shares on the Tel-Aviv and/or Belgian stock exchanges and/or directly from an unrelated party (off the floor), at an aggregate value of up to 1.5 million NIS (including expenses in connection therewith, and including fees of advisors and brokers – therefore the total cost expected for the Plan is 1.5 million NIS).

Implementation of the Plan is intended to commence on the date of publication of the Company's financial statements for the year 2009, and such authorization shall be in effect until June 30th, 2010. The Company does not expect any tax implications on itself or its shareholders in connection with the execution of the Plan, except for shareholders selling their shares, which shall be subject to their personal tax liabilities. The source of funding for the Plan will be the Company's cashflow from ordinary operations. If executed to its fullest extent, and under current share prices on the Tel-Aviv stock exchange, the Plan (taking into account previous purchases of Company securities over the past 8 quarters) is expected to have a material effect on the rate of holdings and voting rights of Mr. Haim Shani, chairman of the Board and controlling shareholder of the Company (i.e. it shall increase the rate of relative holdings and voting rights of Mr. Shani by more than 5%) .

After reviewing the Company's financial statements, while applying a conservative approach, the Company's sources of funding for the repayment of its existing and future debts and obligations, including its cash balance, the Company's expected cashflow in accordance with management's review, as well as the price levels of Company shares on the stock exchange, which provide a good opportunity for the Company to acquire its own shares allowing, inter alia, the maintaining of share reserves (as dormant shares) for future financial transactions, the Board determined that in its opinion, approval of the Plan is suitable and appropriate, in light of the Company's financial achievements over the past 2 years, for the purpose of strengthening investors' confidence in the Company. Profitability Test – The Board resolved, after reviewing its most recent audited financial statements, after applying a conservative approach, that the Company's profits, within the meaning of Section 302 of the Israeli Companies Law, amount to approximately NIS 4,114 thousand. Therefore, the Board determined that approval of the Plan conforms with the Profitability Test. The Liquidity Test – It is in the Board's opinion, that the above Plan will not harm the Company's ability to repay its debts, as they mature, and therefore the above approval conforms with the Liquidity Test. (For details concerning the approval of the buyback plan as well as the Board of Directors' reasons for approving it, see immediate report on an event or matter outside the ordinary course of the corporation's business, dated March 4, 2010, Reference No. 2010-01-389595).

4.17 <u>The Company's Resolutions (Reg. 29 A)</u>

Below are details of the Company's resolutions with regard to the approval of acts pursuant to Section 255 and 254(a) of the Companies Law, extraordinary transactions pursuant to Section 271(1) and exemption, insurance and undertaking to indemnify officers, in effect as at the report date:

4.17.1 <u>Indemnification</u>: The Company's Board of Directors resolved, on March 18, 2004 (and the resolution was approved by the General Meeting of Company Shareholders of April 13, 2004) to undertake towards officers of the Company that the Company would indemnify them, in advance, in the cases set forth hereunder, in an amount not exceeding 25% of the Company's equity, as recorded in its financial statements as of the date of the indemnification, for all the officers. This amount will be added to the amount of all insurance benefits in respect of the types of determining events, which the Company will receive from time to time under any officers liability insurance. The determining events are:

1. Acts in connection with investments (including investments that were not actually implemented) made by the Company, a subsidiary or a related company (within the meaning of these terms in the Securities Law) in various corporations, whether prior to or after effecting the investment, including the engagement in the transaction, the execution of the transaction, the follow-up and supervision of the investment after it was made, and any act performed by an officer in connection therewith.

2. The issuance of securities (including an 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 of the Companies Law, including the receipt of credit, the sale or purchase of assets or liabilities, including securities or the grant or receipt of a right in any of them, and any act entailed, whether directly or indirectly, in such a transaction.

4. A report or notice filed pursuant to the Companies Law or the Securities Law or any other law applicable to the Company, including regulations enacted pursuant thereto, or pursuant to laws and regulations addressing similar subjects outside of Israel, or pursuant to rules or directives which are customarily applied on the Stock Exchange or in a trading arena in or outside of Israel, including non-submission of such a report or notice.

5. Acts in connection with the terms of employment of employees, including the handling of pension funds, provident funds, insurance and savings funds, options and other benefits to employees, of any kind or nature.

6. Any act causing bodily injury, disease, death, or damage to property including loss of use thereof.

7. Any act resulting in failure to effect appropriate insurance arrangements.

8. Any restructuring or reorganization of the Company or any decision in such regard, including, without derogating from the generality of the foregoing, a merger, spin-off, change in the capital of the Company, subsidiaries or related companies, the dissolution or sale thereof, the allotment of any kind of security of the Company, a subsidiary or a related company, or the performance of a distribution (as defined in the Companies Law) or a purchase offer by or in connection with any of the above.

9. Any utterance or statement, including the expression of an opinion or position, that was made in good faith by the officer in the course of and by virtue of his office, including in the course of General Meetings or meetings of the Board of

Directors of the Company, a subsidiary or a related company, or any of the committees of such Board of Directors.

10. Civil or criminal actions relating to the current and ordinary course of the Company's business, and also to extraordinary transactions of the Company.

11. Actions that were filed against an officer in connection with the dissolution or receivership of the Company, a subsidiary or a related company.

12. Derivative actions or class actions in connection with the Company, a subsidiary or a related company.

13. Acts in connection with merger, spin-off, reorganization and such like proceedings.

14. Acts or decisions in connection with the preparation or approval of financial statements, business plans or forecasts in connection with the Company, a subsidiary or a related company.

15. Acts in connection with documents relating to the matters enumerated above, or in connection with acts or decisions relating to the matters enumerated above, or in connection with representations and undertakings given in relation to the matters enumerated above, including such representations and undertakings given to third parties or to the Company, a subsidiary or a related company, or to any party on its behalf (including to its consultants, such as accountants, attorneys, etc.).

16. Any act or omission committed by the officer in the past, in his capacity as an officer of the Company, in respect of which he may be lawfully indemnified.

With regard to the cases enumerated 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 of the Audit Committee and Board of Directors on March 27, 2006, to amend the provisions of the Company’s Articles of Association relating to exemption, insurance and indemnification of officers, in order to bring them into conformity with the provisions of Amendment No. 3 (dated March 17, 2005) of the Companies Law, 5759-1999; and to approve indemnification and exemption and the grant of letters of undertaking to officers serving from time to time in the Company and/or on behalf of the Company in another company, as well as to Mr. Haim Shani and Ms. Bareket Shani, the controlling shareholder of the Company and his wife, who serve as officers of the Company (for details see immediate report on the results of a meeting, dated May 9, 2006, Reference No. 055275-01-2006, and immediate report on the results of a meeting, for approval of a transaction with a controlling shareholder and/or for approval of a private offering, Reference No. 055281-01-2006)). On September 23, the General Meeting of Company Shareholders approved the Board of Directors' resolutions from July 1, 2008 concerning Mr. Joel Sela, an outside director of the Company, in the matter of granting indemnification under an indemnification permit as provided in the Company's Articles of Association (for details see section 4.17.11 below).

4.17.3 Transaction with an interested party: At the end of July 2009, an agreement terminated under which the Company had leased an area of approximately 632 square meters in the building called Unitronics House from a company controlled by Mr. Haim Shani, the controlling shareholder of the Company, who serves as Chairman of the Board of Directors and Company CEO, and Ms. Bareket Shani, his wife, who serves as a director and the Human Resources Manager of the Company (the "**Lessor**").

On May 21, 2009, the Board of Directors and Audit Committee approved, subject to the approval of the Shareholders General Meeting, the signing of a new lease agreement with the Lessor for the lease of 936 square meters of office space in Unitronics House, as well as 20 parking spaces.

On July 29, 2009, the General Meeting of Company Shareholders approved the aforesaid rental transaction.

(For further details of the terms of the lease and approval of the aforesaid transaction, see section 4.8.2 above.)

4.17.4 Insurance: The Company has a directors and officers liability insurance policy. On March 4, 2010, 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 that was approved by the General Meeting of Company Shareholders on April 12, 2005 (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 4, 2010, Reference No. 2010-01-404205, and section 4.7.8 above).

4.17.5 Transaction with an officer: Granting of a special bonus to Mr. Haim Shani, the Company's controlling shareholder, Chairman of the Board of Directors and Company CEO, as compensation for his contribution to the successful performance of the Company in the years leading up to 2004 in general, and in 2004 in particular, and for the Company registering a net profit in that year (for details of the amount of the bonus for the years 2006, 2007 and 2009, see sections 1.14.4 and 4.7.2 above).

4.17.6 Deleted.

4.17.6 Transaction with an officer – On May 21, 2008, the Audit Committee and Board of Directors resolved to approve the extension of the employment agreements of each of 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 sections 1.14.4 and 4.7.2 above, and 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, Reference No. 141630-01-2008).

4.17.7 On April 12, 2007, the Board of Directors approved a private allotment of 210,000 non-negotiable options to a former employee of the Company. The private allotment was a “private offering that is not a substantial private offering or an exceptional private offering,” within the meaning of these terms in Regulation 1 of the Securities Regulations (Private Offering of Securities in a Listed Company), 5760-2000. (For details see immediate report concerning a private offering that is not a substantial private offering or an exceptional private offering, dated April 15, 2007, immediate report including the Stock Exchange’s letter concerning the approval, dated April 29, 2007, and amending report dated June 19, 2007, Reference No. 431957-01-2007, amending the periods of exercise of the options that were published in the aforesaid report from April 15).

4.17.8 Transaction with an officer: On July 3, 2007 the Annual General Meeting of Company Shareholders approved the resolutions of the Board of Directors from March 25, 2007 concerning Mr. Moshe Baraz, an outside director of the Company, with respect to granting him indemnification under an indemnification permit as provided in the Company's Articles of Association, the inclusion of Mr. Baraz under the insurance cover for directors and officers of the Company, and in addition it approved the granting of annual compensation and participation compensation (for details see amending report dated March 31, 2007, Reference No. 354083-01-2007, 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 meeting, published on July 3, 2007, Reference No. 313657-01-2007).

4.17.9 Transaction with an officer: On September 23, 2008, the General Meeting of Company Shareholders approved the resolutions of the Board of Directors from July 1, 2008, concerning Mr. Joel Sela, an outside director of the Company, with respect to granting him indemnification under an indemnification permit as provided in the Company's Articles of Association, the inclusion of Mr. Sela under the insurance cover for directors and officers of the Company, and it also approved the granting of annual compensation and participation compensation (for details, see immediate report on the grant of indemnification to an officer, dated September 24, 2008, Reference No. 004735-01-2008, and immediate report on the results of a meeting, published on September 24, 2008, Reference No. 004717-01-2008).

4.17.10 Transaction with an officer: On May 21, 2008, the Board of Directors and Audit Committee approved raising the annual compensation and participation compensation to NIS 25,000 and NIS 1,590, respectively, for Mr. Moshe Baraz, an 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 4.7.6 above).

4.17.11 Transaction with an officer: On May 21, 2008, the Board of Directors and Audit Committee approved raising the annual compensation and participation compensation to NIS 25,000 and NIS 1,590, respectively, for Mr. Zvi Livne, a director of the Company (for details, see Section 4.7.7 above).

March 4, 2010

Unitronics (1989) (R"G) Ltd.

By:

Mr. Haim Shani, CEO and Chairman of the Board of Directors

Zvi Livne, Director