Unitronics (1989)(R”G) LTD.

2010 – Periodic and Annual Report

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

Chapter A – Description of the Company's Business

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

1.1 Company activity and description of its business development

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

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

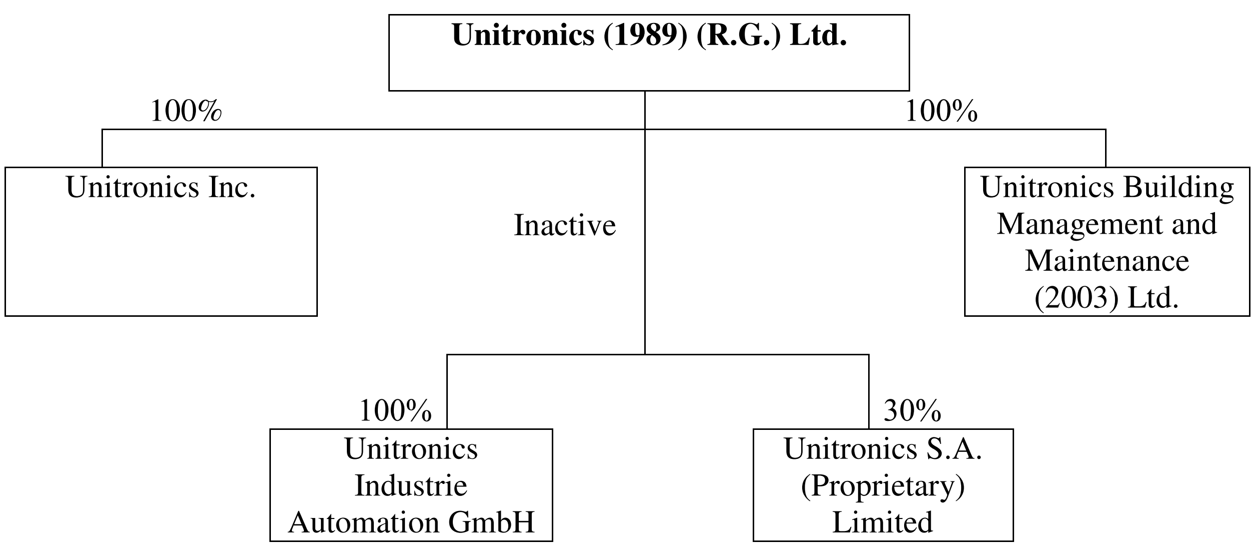
outstanding debentures (Series 2) on the date of publication of this Report see section 1.4.3 of the Report. In February 2011 the Company published a Shelf Prospectus in Israel, which includes an option to offer shares, debentures, convertible debentures, options to buy shares, and options to buy debentures of the Company (hereinafter – "**Shelf Prospectus**"). On this date the Company has not yet offered securities to the public under the Shelf Prospectus. For details see section 1.4.7 of this Report.

The Company operates from facilities in the "**Unitronics Building**", an office and industry building situated in Airport City near the David Ben Gurion Airport, where the Company leases approximately 1,295 square meters from the Israel Lands Administration since August 2000 and rents approximately 936 square meters from a controlling shareholder (see Section 1.12 of this Report). The Company also has officer in the US as set forth below.

1.2 Subsidiaries and holding structure diagram

The Company has two wholly owned active subsidiaries: Unitronics Inc., which is incorporated in the United States (Delaware) and engages primarily in coordinating the Company's marketing and distribution operations in the United States, and Unitronics Building Management & Maintenance (2003) Ltd., 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 Operating segments

The Company has two major operating segments, managed 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 segment: 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 segment: 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.

Management and maintenance of the Unitronix House: through its subsidiary Unitronix House Management and Maintenance (2003) Ltd, the Company is engaged in the management and maintenance of Unitronix House (for details see section 6.21 below). The Company's revenues from this operation are immaterial.

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

Below are details of investments in the Company's capital made during the last 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 Since August 2005 and given the low share prices at that time on the stock exchange in Tel-Aviv and in Belgium and as a vote confidence in the Company and its performance, the Company has, from time to time, been buying back ordinary shares of the Company traded on the stock exchanges in Tel-Aviv and in Bruxelles; most of the acquisitions were made in accordance with buyback plans adopted by the Board of Directors from time to time. As part of the plans, the Board of Directors authorized the Company to buy, from time to time, during trading on the stock exchanges in Tel-Aviv and in Bruxelles, or directly from unrelated parties, shares for a maximum amount that was separately determined for each plan, for a fixed period, after having approved that the conditions for "distribution" pursuant to the Companies Law have been satisfied and other relevant information. The source of financing of the above buyback plans was the Company's income from ordinary operations. For details on each plan adopted as aforesaid, see Immediate Reports on Concerning an Event or Matter Outside the Ordinary Course of Company Business included therein by way of reference: a report dated December 7, 2009, reference no: 312105-01-2009; a report dated March 4, 2010, reference no: 404196-

01-2010; a report dated May 23, 2010, reference no: 489135-01-2010, a report dated November 11, 2010, reference no: 676662-01-2010.

Until the date of this Report, the Company acquired a total of 1,530,416 shares which were acquired, as aforesaid, out of 11,678,504 existing ordinary shares in the capital of the Company. These acquisitions were made for an aggregate amount of NIS 6,239,000 and at prices ranging between NIS 1.51 and NIS 5.5 per share. On the date of publication of this Report the Company holds all the shares acquired as aforesaid, and as long as they are owned by the Company, the shares are "dormant shares" as the term is defined in the Companies Law. In addition, on the date of this Report, the buyback plan adopted by the Company's Board of Directors on November 11, 2010 was still in effect. Under the plan, the Company is authorized to buy, from time to time, during trading on the stock exchange or directly from unrelated parties, shares of the Company for an amount not exceeding NIS 1.5 million (including costs related to the acquisition, with the inclusion of fees paid to consultants and service providers in connection with the acquisition). This plan is effective until March 31, 2011. Under this plan, until the date of this Report, shares for an aggregate amount of NIS 373,000 have been acquired.

In addition, on January 8, 2009, at the authorization of the Board of Directors, the Company bought back, off-the-floor and not from interested parties, 7,100,000 par value debentures (Series 2) at a price of NIS 74.45 for a consideration of NIS 5,286,000 as well as NIS 300,000 par value debentures (Series 1) at a price of NIS 90.65 for a consideration of NIS 272,000. Pursuant to the 2004 prospectus and the 2006 prospectus, which stipulated that debentures that will be acquired by the Company, will be cancelled and delisted from trading on the stock exchange, the debentures acquired as aforesaid were cancelled and delisted from trading on January 20, 2009. For additional details on this acquisition, see immediate reports specified below, which are included by way of reference: Immediate Report dated January 8, 2009, reference no: 008760-01-2009 and Immediate Report dated January 8, 2009, reference no: 018851-01-2009.

1.4.2. 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 pursuant to the directives and resolutions of the Stock Exchange's Board of Directors. The agreement entered into force on March 1, 2006, after obtaining the approval of the Stock Exchange for Harel's appointment as a market marker for the Company's shares. The agreement is for a period of 12 months from the date of its entry into force and will be extended for additional 12-month periods unless the Company or the market maker has terminated the agreement by a prior written notice of 45 days. To the best knowledge of the Company and its directors, subject to the agreement, Harel has entered into another agreement with a shareholder who is not an interested party in the Company (hereinafter – "the lender"), pursuant to which the lender has lent Harel (without any consideration, payment or compensation from Harel and/or the Company) ordinary shares of the Company of NIS 0.02 par value each, which are traded on the stock exchange, for market making purposes in accordance with the provisions of the agreement. In accordance with the agreement, Harel is entitled to a fixed monthly payment (for an insignificant amount), which is subject to review once a year.

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

On April 22, 2010, the Company was notified of the exercise of 1,958 options (Series 2), which were allotted by the Company under the 2006 Prospectus, into ordinary shares of the Company, in respect of which the Company allotted 1,958 ordinary shares as aforesaid. (For additional details see immediate report on the capital position and securities registrations of the corporation and changes therein, which is included by way of reference, dated April 22, 2010, reference no: 2010-01-456504). Following the said allotment, there was an increase in the issued share capital of the Company and it now comprises 11,678,504 ordinary shares.

On August 24, 2010, the remaining 598,042 options (Series 2) expired (for additional details see immediate report on the capital position and securities registrations of the corporation and changes therein, which is included by way of reference, dated August 24, 2010, reference number: 2010-01-597303).

On August 25, 2009 the Company paid the first installment out of five of the debenture principal (Series 2) of 5,380,000 par value debentures (Series 2). On August 25, 23010 the Company paid the second installment of the debenture principal (Series 2) of 5,380,000 par value debentures (Series 2). Following this payment, on the date of the prospectus, 16,140,000 par value debentures (Series 2) remain in circulation.

1.4.4 On May 24, 2009, the Company paid the third installment of principal on debentures (Series 1) allotted by the Company in 2004, pursuant to the 2004 Prospectus. (For details see immediate report on the payment of principal on debentures (Series 1), which is included by way of reference, dated May 24, 2009, reference number: 2009-01-118548).

On May 23, 2010, the Company paid the fourth and last installment of principal on debentures (Series 1) (For details see immediate report on the payment of debentures (Series 1) principal, dated May 23, 2010, reference number 2010-01-489102.)

Following these payments, no debentures (Series 1) remain outstanding.

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

1.4.6. Following the repayments of the debentures (Series 1), the expiry of option warrants (Series 1), the expiry of option warrants (Series 2), the expiry of employee stock options and the buybacks of Company shares, all as set forth above, there was an increase in the holdings of Mr. Haim Shani, Chairman of the Board and CEO of the Company and controlling shareholder therein. As of the date of publication of this prospectus, Mr. Shani's holdings were 60.65% in the share capital and voting rights, and on a fully diluted basis: 59.42% in the share capital and voting rights. (For details, see immediate report **concerning the status of holdings of interested parties** published on December 31, 2010, reference number 2011-01-034503).

1.4.7 Pursuant to the Shelf Prospectus, the public may be offered securities of the Company as set out below:

1.4.7.1 Up to 10,000,000 Registered Ordinary Shares, of NIS 0.02 par value each of the Company.

1.4.7.2 Up to 5 series of Registered Debentures (Series 3 to 7), with each of these debenture series at a total par value of up to NIS 100,000,000, payable (Principal) in one installment or in several equal or unequal installments, which will not exceed four quarterly payments per annum;

1.4.7.3 Up to 5 series of Registered Convertible Debentures (Series 8 to 12), with each of these debenture series at a total par value of up to NIS 50,000,000, payable (Principal) in one installment or in several equal or unequal installments, which will not exceed four quarterly payments per annum; the Convertible Debentures of series 8 to 12 shall be convertible to ordinary shares of NIS 0.02 par value each of the Company, pursuant to the terms of conversion set out in the shelf offering reports;

1.4.7.4 Up to 5 series of Warrants (Series 3 to 7), with each of these warrant series including no more than 5,000,000 registered warrants, which are exercisable such that each warrant from each of the series 3 to 7 shall be exercisable into one ordinary share of NIS 0.02 of the Company;

1.4.7.5 Up to 6 series of Warrants (Series 8 to 13), with each of these warrant series including no more than 1,000,000 registered warrants, which are exercisable such that each warrant from each of the series 8 to 13 shall be exercisable into NIS 100 par value debentures of series 3 to 7 or 8 to 12 of the Company;

As of the date of this Report, no securities have been offered or listed for trading pursuant to the Shelf Prospectus.

1.5 <u>Dividend Distribution</u>

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

The balance of distributable earnings as of December 31, 2010 was NIS 15,923,000. The balance of distributable earnings close to the date of publication of the Report (as of February 28, 2011) was NIS 15,797,000, based on the cumulative profits as of December 31, 2010, net of the buyback of shares after the balance sheet date.

Part II – Other Information

1.6 Financial information on the Company's fields of activity

	For the year ended December 31		
	2010	**2009**	**2008**
	NIS in thousand		
Revenues:			
Products	77,965	57,496	64,418
Systems	77,598	26,133	14,597
Unitronics Building	416	489	705
Total Revenues*	152,979	84,118	79,720
Sector costs			
Products – fixed**	11,129	9,544	11,158
Products – variable*	38,268	25,623	30,012
Systems – fixed**	12,152	8,234	8,971
Systems – variable**	54,659	17,870	12,223
Unitronics Building – fixed ***	0	0	0
Unitronics Building – variable***	347	712	716
Total ****	116,555	61,983	63,980
Sector results			
Products	28,568	22,329	22,348
Systems	7,787	29	(6,597)
Other	69	(223)	(11)
Total	36,424	22,135	15,740
Non-attributed expenses	(14,435)	) 11,964 (	(8,943)
Profit from ordinary operations*	21,989	10,171	6,797

	For the year ended December 31		
	2010	**2009**	**2008**
	NIS in thousand		
Assets attributable to the sector			
Products	40,665	21,667	23,184
Systems	13,283	13,356	3,813
Other	36	38	53

Unallocated	73,047	70,346	75,371
Total assets*	**127,031**	**105,407**	**102,421**

*	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

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 studies. However, it is important to note that except for a number of articles, the Company has no extensive market studies on these areas of activity, which were conducted after the onset of the global economic crisis which began in the second half of 2008. These sources include, among others, a survey by IMS Research (http://imsresearch.com/), which was published in August 2010, titled: "The World Market for PLCs – 2010 Edition) (collectively with additional research conducted by this organization, hereinafter – "**the IMS Report"**), a summary review and forecast conducted by ARC Advisory Group in June 2009 (hereinafter – "**the ARC Report**") and previous reports from June 2008 and September, 2005, titled "Programmable Logic Controllers Worldwide Outlook" (Market Analysis and Forecast through 2013) (summary accessible to the public at http://www.arcweb.com) (hereinafter: the "**ARC Report**"); a study and forecast from August, 2004 conducted by IMS Research, titled "PLC 2004 Worldwide", an article from

June, 2007 titled "Steady Growth in Worldwide PLC Market" and an article from January, 2009 titled “Integrated Automation Solutions become more important to PLC Suppliers (summaries accessible to the public at http://www.imsreasearch.com), publications from September and December, 2004 by the same organization (hereinafter, jointly: the “**IMS Report**”); and a survey and forecast from July 2001 conducted by Frost & Sullivan (Frost & Sullivan World Programmable Logic Controllers #7450-10) (hereinafter: the **“Frost & Sullivan Report”**). Hereinafter, wherever this report relies on the above, this fact will be explicitly indicated.

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

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

Notwithstanding the aforesaid, the Company is unable to either estimate or quantify the impact of such developments on the results of its operations. For a discussion of other external factors, including specific market risks and their manner of management, see 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 the Company's business by operating segments

1.8 Overview – synergy between Company's operating segments

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 operating segment and changes therein

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

1.9.2 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 the Company's products with these standards and the Company's assessments in this regard, see Sections 1.9.24 and 1.9.25 of this report.

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

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

(a) PLCs of various sizes: The number and type of external devices that can be connected to and controlled by a PLC define its dimensions as a nano PLC also known as Smart Relay, micro PLC also kown as Compact PLCs, small PLC, medium PLC or large PLC, also known as Modular PLCs, and Large PLCs, which are also known as High-End Modular PLCs.
As stated in section 1.9.10 below, the Company focuses in the Products field on nano, micro and small PLCs (and does not focus on large PLCS), that have, based on the sources quoted above, the highest relative growth rates.

(b) Areas of Application: Concurrently with the increasing need for automation as explained above, the global and local economy affect the market, as reflected, *inter alia*, in the different market development rates projected for the coming years in different industrial fields. Thus, for example, the IMS Report estimates that 54% of global sales are made to machinery manufacturers (of which 10% are tool manufacturers, 10% manufacturers of food and beverage machinery and 10% manufacturers of packaging machines) and 46% of the sales are to end consumers (of which 20% are in the motor vehicle industry, 16% in the services industry and 11% in the chemical industry). The previous ARC Report estimates that the motor vehicle industry, 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) Geographic breakdown: an examination of the geographical distribution of sales of PLCs around the world in recent years according to IMS report available to the Company shows that, in general, 46% of the sales take place in Europe, the Middle East and Africa, about 20% in America, about 23% in Asia and Pacific countries and 10% in Japan. According to the previous ARC Report, about 44% of sales take place in Europe, the Middle East and Africa, about 20% in North America, about 18% in Japan, about 15% in Asia (mainly China and India), and about 3% in South America. Concurrently, economic growth and industrial development in certain regions of the world, such as Brazil, Russia, India, China and Eastern Europe countries, in the field of establishing production capacity and local enterprises, and the increasing introduction of automation into such enterprises, give rise to expectations of higher growth rates in these regions.

As stated above, except for 2009, so far the 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 IMS and ARC anticipate continued growth already from 2010). ARC 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 operating segment

The PLC market is characterized by frequent technological developments, introduction of new products and technologies, and changes in market needs and requirements. The developments and innovations in the fields of electronics, communications and computers also influence the control and automation industries, including a trend towards miniaturization of PLCs (smaller units that compete in terms of functionality and price with large units from previous generations), expanded use of communications (between PLCs, and between PLCs and the command computers and organizational systems, using

[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 price drops.

available and widespread communications technologies such as Ethernet, Internet and cellular communications), and development of convenient, user-friendly interfaces including the use of color screens in various sizes and the use of touch screens as a means of man-machine communication in equipment and machinery. The Company designs its products in accordance with these trends, including miniaturization (down to palm-sized products), integration of convenient and user-friendly interfaces (such as color and touch 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 operating segment and changes therein

The Company estimates that the primary success factors in the PLC sector include, among others, the availability of a range of products 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 operating segment

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

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

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

1.9.8 Substitutes for the products in the operating segments and changes therein

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

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

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

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

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

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

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

1.9.10 Products and services

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

1.9.10.1 PLCs and expansion units

The Company designs, develops, manufactures, markets, sells and supports several series of PLCs. These PLCs are based on a central processing unit (CPU) for computer-embedded industrial systems that coordinates the range of command, control, and communications operations executed by the PLC. The Company's PLCs also incorporate an integral human-machine interface (HMI) component designed to enable the operator to control the PLC itself, and through it the instruments controlled and monitored by the PLC. This interface may differ from one product series to another in its nature and complexity, and it includes a data display (alphanumeric and/or graphic), a programmable keyboard and/or a regular keyboard and/or a touch screen. The PLC communicates with external components (such as the production devices themselves, engines or sensors) by means of built-in physical connections ("sockets" of sorts, similar to phone or computer sockets) intended for data input and output. The input/output capabilities of a PLC (number and type of connectable devices) define its dimensions as a nano PLCs, also known as Smart Relay, micro PLCs also kown as Compact PLCs, small PLCs, medium PLCs or large PLCs, also known as Modular PLCs, and Large PLCs, which are also known as High-End Modular PLCs.

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

Traditional classification	Nano PLCs	Micro PLCs	Small PLCs	Medium PLCs
Alternative classification	Smart Relays	Compact PLCs		Modular PLCs
Major relative advantages	Highly compact; low cost; suitable for control and automation of only the most basic tasks	Efficient price/ performance ratio; suitable for control of simple tasks and operation of relatively simple equipment	Larger I/O capacity and 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 dozens of I/O points (besides the PLC's built-in points), as well as units (named I/O Expansion Modules) that connect electrically only to the PLC, enabling, via the use of an industrial communications network, the addition of hundreds of additional I/O points, depending on the type of PLC (the PLC's specific type and power determine its ability to handle the number of points). This allows for upgrading the PLCs' functional capabilities to match those of small and medium PLCs. These expansion units are designed to increase the flexibility and compatibility of the various PLCs according to the varied and specific needs of each user, and also to aid in reducing the costs involved in the purchase, installation and maintenance of larger and more expensive PLCs and/or of larger numbers of PLCs.

(g) Accessories: The Company provides complementary accessories for the above 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 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 customer.

1.9.10.3 <u>Trends and Changes – Products</u>

The Company's products are focused mainly on the micro and nano PLCs sector. This segment is characterized in the market surveys described above as the market segment with the most rapid growth rate. At the same time, this market segment is highly competitive and prices of products therein are steadily declining (see also section 1.9.16 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 <u>Services</u>

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 the involvement of the Company's lab, development and marketing staff as necessary.

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

1.9.11 Revenue breakdown and profitability of products and services

The Company's revenues from the Products segment accounts for 81%, 68% and 51% of its total revenues in 2008, 2009 and 2010, respectively. The various series of the Company's major products contribute to its profitability with no material differences among them. The variations in the profitability margins of the Company's Products Department in the years 2008, 2009 and 2010 primarily stem from different (although not materially different) profit margins of several transactions, changes in the exchange rates of main currencies vis-à-vis the shekel and changes in manpower inputs during these periods.

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

	For the year ended December 31		
	2010	**2009**	**2008**
	In NIS thousand (*) (and percentage of total revenues/gross profit, approximated)		
Products (**) (***)	(51%) 77,965	(68%) 57,496	(81%) 64,418
	(49%) 37,997	(53%) 30,687	(50%) 31,900

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

(**) In addition to complete products (PLCs and expansion units), the Company sometimes sells products together with certain components of PLCs and sometimes only parts and components (electronic cards, panels, individual components). In cases in which a product is sold together with additional components, their sale is included in the sale of the product. There are no significant differences in the method of sale, the demand, the production processes and/or 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. The development is based on the implementation of conclusions drawn from an analysis of trends and feedback from distributors and customers worldwide and the analysis of market trends. In recent years the development has matured into products that are offered and sold as part of the Company's products basket.

The Company is 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.

Among other activities, the Company is engaged in the following developments: (1) development of new features for operating systems' software; (2) development of operating system software for temperature applications in process control; (3) development of hardware that supports controller screens with 640X480 full VGA resolution; (4) development of software that supports controller screens with 640X480 full VGA resolution; (5) development of a software extension that supports color display on controller screens with 320X240 Quarter VGA resolution; (6) development of remote data load software.

For more information about the Company's software development stages, see section 1.9.20 below.

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

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[2]. 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.

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

1.9.13 Customers

1.913.1. 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 1.10.9 of this Report.

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

1.9.14 Marketing and distribution

The Company’s products and services are marketed and sold through the Company’s internal marketing network consisting of some one hundred and forty distributors (of which approx. 95 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 training and technical support for assimilation of products and/or troubleshooting. Applications to the support team usually come from the Company’s distributors, from direct end users and from indirect end users (who purchased the Company’s products from distributors in Israel or abroad). These applications are processed by support staff and, if required, also with the involvement of the Company’s development and marketing staff.

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

The Company’s agreements with its distributors generally confer exclusive distribution rights in defined territories (subject to the Company’s right to sell by itself and/or through subsidiaries and/or pursuant to comprehensive agreements for installing systems), for limited periods (usually one year), renewable subject to meeting specified minimum sales or subject to the Company’s discretion in the event that the distributor fails to meet the agreed specified minimum sales. The distributors purchase Company products based on an annual purchase forecast provided by them in advance, usually according to the Company’s price list, and sell them at their own discretionary prices. The Company generally grants its distributors 30 to 90 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 the settlement of disputes.

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

The Company's distributors may not return products. As part of the products' warranty, damaged products are either repaired or replaced. It should be noted that in practice, only small quantities of the products are being replaced (for details on revenue recognition in the Products segment, see note 2(r)(1) to the financial statements).

1.9.14.3 Material distributor: The Company’s revenues from one of the distributors of its products accounted for 3.1%, 4.8% and 5.3% of its total revenues in 2010, 2009 and 2008, 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 accounted for 3.5%, 4.4% and 6.5% of its total revenues in 2010, 2009 and 2008 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 inventory, 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 for a period of 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 the professional publications of the industrial PLC sector worldwide.

1.9.15 Order backlog

As of December 31, 2010, the Company had an order backlog of NIS 11.3 million for the Products Departments and as of February 5, 2011, the Company had an order backlog of approx. NIS 8,512,000 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, 2010 NIS, thousands	Product order backlog as of February 5, 2011 (closest possible date to date of this prospectus) NIS, thousands
For Q1 2011	5,098	2,600
For Q2 2011	1,498	1,136
For Q3 2011	1,315	1,062
For Q4 2011	2,296	1,787
For 2012 and thereafter	1,121	1,927
Total	11,328	8,512

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

1.9.16 Competition

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

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

1.9.17 Seasonality

The Company does not identify 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 the utilization of subcontractors for the production of its products and has reduced its in-house production, with a view to reducing costs and improving timetables. In the first years of expanding production through subcontractors, the Company shifted to subcontractors mainly the manufacture of the plastic components in its products (such as the casings of the PLCs and the expansion units), the keyboards used for its products and most of the automatic placement of the components of the electrical circuits (PCBs). During 2010 the Company began transferring turnkey production lines of entire products to subcontractors specializing in the provision of these services, which include the purchase of components, placement of components, final assembly, testing and calibration of products and the packaging of these products. However, the Company itself assembles, using its staff and its facilities in Airport City, a insignificant share of the components of the electrical circuits, and generally performs by itself the final assembly of the product, its electrical testing, calibration and packaging.
The use of subcontractors to carry out most of the production stages is also intended to improve the possibilities of growth and flexibility in view of the high production capacity using existing subcontractors and the ability to add subcontractors as needed (subject to the learning and assimilation curve described below). As for production operations within the Company, as of the date of this report most of the production capacity is utilized, but the Company is able to increase its production capacity for these activities as needed, because of the possibility of assigning to these tasks unskilled manpower that is therefore relatively available and that requires only a short training period. The average production time for most of the Company's products is about two months, while the actual lead time for the Company's products is usually shorter, depending on the order volume and the finished goods inventory in the Company as of the date of every such order.

On September 16, 2010 the Company signed a non-exclusive agreement with a third party unrelated to the Company or interested parties therein, which serves as a subcontractor for the production and supply of the Company's products by the turnkey method. Pursuant to the agreement, the subcontractor performs the acquisition, placement and assembly of the components, and subsequently tests and packages the finished products, in accordance with the Company's specific guidelines and supervision and based on itemized purchase orders, which are based on continually updated seasonal projections that are transferred to the subcontractor. As part of its obligations, the subcontractor provides a 24-month warranty for its work, secures its liabilities under the agreement, and the intellectual properties related to the products are maintained by the Company. Payment for the products is based on fixed amounts depending on the volume of orders, and is carried out such that a small percentage of the amount of the order is paid within 5 days of the receipt of the purchase order by the contractor, while the remaining amount is paid on the basis of net + 30 days. As of the date of the prospectus, the volume of orders to be supplied by the subcontractor is insignificant and the Company is examining the option of shifting additional production processes to this subcontractor, subject to the Company's requirements.

Apart from the aforesaid agreement, 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 net + 75 days, predefined delivery time (one to two weeks), and prices subject to volume discounts.

he Company’s payments to the principal production subcontractor (which is not the subcontractor with which the aforementioned agreement has been signed) in 2010, 2009 and 2008 constituted 3.4%, 7.4%, 8.7% and 8.7%, respectively, of the Company's total expenses on 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 <u>Fixed asset, real estate and facilities</u>

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

1.9.20 <u>Research and development</u>

The information set forth below pertains to the stages of development of the Company's products:

Description	Development costs as of 31.12.2010	Overall projection for the next two years	The product's development phase	Scheduled completion of the next stage of development
Development of new operating systems	110,354	228,487	Phase 1	January 2012
Development of operating system for temperature application in process control	1,022,753	-	Final Testing	Completion stage
Development of hardware expansion for FVGA resolution	726,259	-	Final Testing	Completion stage
Development of software for the	1,371,653	913,946	Phase 1	January 2012

expansion screen resolution for FVGA applications				
Development of color resolution expansion for QVGA applications.	774,059	-	Final Testing	Completion stage
Development of remote data upload program	621,434	-	Final Testing	Completion stage
Total	**4,626,512**	**1,142,433**		

For additional details on products and technologies under development, see section 1.9.12 below.
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		
	2010	**2009**	**2008**
	NIS in thousands (*)		
Payroll and benefits	5,715	4,479	6,349
Subcontractors	730	281	518
Other expenses	1,424	1,923	2,183
Less capitalized expenses that were recognized as an intangible asset	(4,675)	(4,567)	(7,433)
Total	3,194	2,116	1,617

From 1992 through December 31, 2010 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[3]	1/7/03	NIS 1,644,268	40%	NIS 657,707	1/5/2003 – 30/4/2004

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

The letters of approval are conditional on compliance with the provisions of the R&D Law and the regulations and rules pursuant thereto, and on performance of the R&D plans as described in the applications, within the performance period, while reporting and obtaining approvals with respect to changes in holdings and controlling means in the Company, as well as transfer of controlling means in the Company to a foreign resident or a foreign company. In this framework the Company is subject to further restrictions, such as refraining from overseas manufacturing of products based on technology developed with the assistance of the Chief Scientist, and from the transfer of such technology overseas or to third parties, except with the approval of the Chief Scientist. The Company is also prohibited from transferring knowledge developed with Chief Scientist financing assistance, to any third party, without the Chief Scientist's authorization. Up to December 31, 2010, grants to the Company under these programs were approved in a total sum of NIS 2,473,000. From 1992 to 2005 and in the period up to December 31, 2010, the Company paid royalties to the Chief Scientist for a total amount of NIS 222,000 (of which approx. NIS 25,000 from 2001 to 2005). As of December 31, 2010, the balance of liabilities in respect of grants received by the Chief Scientist, totaled NIS 159,000, attributable to programs that the Company's management believes may generate royalties. As of the date of this prospectus, the Company has met its obligations to the Chief Scientist.

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

1.9.21 Intangible assets

The Company attaches low importance to the registration of patents for the protection of its intellectual properties, with respect to technologies it has developed. The Company believes that in a world of rapid technological changes, its ability to develop and launch new state-of-the art products in a relatively short period of time, facilitates its success and penetration into markets, and the protection of its intangible assets and intellectual properties is of lesser significance. For details on intangible assets related to the Company's activities, see section 1.13 below.

1.9.22 Human Capital

The activity of Company staff is split into departments, where staff are employed and involved in the Company's products and systems departments, but focus mainly on issues pertinent to their own specific sector (for details see section 1.14 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 (whether they are purchased directly by the Company or for the Company by a subcontractor as part of the turnkey production arrangement).

Regarding a small number of items that represent about 1% of the components in most of the products (representing immaterial purchase amounts in the years 2008, 2009 and 2010), 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, 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 1.6 above, the Company 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 a table:

	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 several weeks) and particular items, where the replacement of a supplier may lead to a longer delay, safety inventories representing immaterial amounts, are maintained for a period of 4 months (whether they are purchased directly by the Company or for the Company by a subcontractor as part of the turnkey production arrangement).	4%	**All the components in this classification**
Single manufacturer; a few suppliers; replacing the manufacturer may cause significant delays and may involve changes to products and associated costs	1%	**None**

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

1.9.23 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 to meet forecasted requirements. In addition, the Company holds a finished products inventory for supplying current orders for some 35-75 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. As the volume of outsourced production grows (turnkey production subcontractors), the Company plans to reduce the inventory of components and raw materials and primarily hold finished products inventory for a period of 60 to 90 days[4]. 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. From time to time the Company is examining new means of inventory conservation, focused primarily on increasing the **finished goods inventory on hand at the Company**, and is shifting this inventory in some of the markets to sites closer to the distributors, in order to assist the distributors and customers and to make Company products more accessible. As part of the above move, the Company has increased the finished products inventory at the subsidiary in the U.S.[5].

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4 The information on the Company's plan to reduce the inventory of components and raw materials, is forward-looking information. The main facts and figures which were used as a basis for this information are an increase in the volume of products to be manufactured by subcontractors, using the turnkey method, which purchase and manage the inventory of components themselves. The principal factors which may prevent these assessments from materializing are: a change in the pace of outsourcing of production to subcontractors using the turnkey method, or changes in the terms of engagement with these contractors.

5 The information concerning inventory conservation methods is forward-looking information. The principal data that served as a basis for this information are: several market surveys and academic theories concerning the various inventory preservation 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

1.9.23.2 Warranty: The Company typically provides a 12-24 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:

	2010		2009		2008	
	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	9,079	43	7,920	50	7,240	41
Suppliers	5,950	71	4,464	95	4,204	70
Subcontractors	2,548	62	976	88	1,098	87

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".

So far the Company has not been required to implement the provisions of the WEEE Directive. Nevertheless, the provisions of this directive may apply to Company products in the future, and, therefore, the Company is following the implementation of the directive in the various countries through its distributors, as well as through professional consultation, participation in conferences and updated professional literature. With regard to marketing in certain countries, such as Germany, the products are marked as required in accordance with the local standards in coordination with the distributor in that country.

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.

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 Prospectus, the Company has spent immaterial amounts to comply with the provisions of the directive. The Company is not aware of any exposure due to the non-implementation of the WEEE Directive and is unable to quantify this exposure, insofar as it exists.

1.9.25 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 with 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).

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

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.

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

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

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

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 regarding the conditions for the realization of such opportunities and/or whether they will be available to the Company at all.

1.9.27 Development forecast for the upcoming year

During 2010 there was an increase in the pace of sales of the Company's products and the Company even exceeded the pace of sales in the years prior to the global economic crisis, which began in the second half of 2008. However, to continue its operations in the products sector, the Company will be required to make greater investments in R&D and in marketing, so as to be able to offer existing and prospective customers more competitive and efficient products, designed to provide a suitable response to those offered by its competitors. The Company estimates that in 2011 development costs in the Products segment could constitute up to 20% of its projected revenues in the Products segment[8]. At

[8] Information regarding development expenses as a percentage of total revenues in the Products segment is forward-looking information. The main data used as a basis for this information are the Company's development plans which, among others, are based on an analysis of market surveys as specified in sections 1.7 and 1.9.3 above, analysis of market requirements and customers' preferences as these are reflected in the Company's contacts with the markets, technological feasibility, the Company's assessments regarding the required development costs and the projected revenues from this segment. The main factors that could prevent this information from materializing are: actual revenues from the sales of products in 2011, the amount of investment required in this segment which could significantly exceed the Company's budgets, limitations on the Company's ability to offer these technologies at competitive market prices or at all, lack of market development and a suitable consumer culture for the use of the developed technologies, the preferable financial and technological means available to many of the Company's rivals, in addition to the risks set forth in section 1.22 of this Prospectus.

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 on geographical segments

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

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

	For the year ended December 31					
	2010		**2009**		**2008**	
	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	52%	26%	51%	35%	54%	44%
Israel	7%	3%	7%	5%	7%	5%
North America	27%	14%	26%	18%	23%	19%
South & Central America	8%	4%	9%	6%	9%	8%
Asia	3%	2%	3%	2%	3%	2%
Africa	1%	0%	1%	1%	1%	1%
Rest of the world	2%	2%	3%	1%	3%	2%

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

1.10 Systems Segment

1.10.1 Structure of the segment and changes therein

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

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

The activities of the Company's Systems Department and certain of the components of the systems in the construction of which it engages are designed in accordance with various standards, including standards on the subject of earthquakes, lifting devices, electrical devices, safety standards and transport standards. For further details, see section 6.10.19 below.

1.10.3 Changes in scope of sector operations and profitability

A market survey from October 2010 by Freedonia on the subject of logistics and conveying equipment, entitled "World Material Handling Products to 2014 (http://www.freedoniagroup.com/DocumentDetails.aspx?DocumentId=512827), estimates that the logistics and conveying equipment market (which also includes automated storage systems) has increased by 7% per annum and is expected to reach $119 billion in 2014. According to this source, 32% of the revenues in this market originate from Asia and Pacific countries, 32% from West Europe and 23% from North America. This survey further estimates that China will post the biggest growth rate and make a significant contribution to the market as a manufacturer of conveying equipment, alongside the US, Germany and Japan. Another market survey from June 2006 on the subject of supply chain management, conducted by ARC Advisory Group (summary accessible to the public at http://www.arcweb.com), estimates this global market at 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 the 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, the Company estimates that due to the extensive competition in

[9] The information concerning a possible growth in the number of logistic systems projects to be implemented in Israel, including the number of projects to be implemented by the Company, is forward-looking information. The principal data which served as a basis for this information are: the assumption that economic growth and a relative improvement in the economic situation in Israel, together with the increasing complexity of the business activities which the automated logistic systems 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*

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]

At the same time, the Company's installations base in Israel, 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).

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

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

1.10.5 The structure of competition in this segment and changes therein

The construction of automated logistics systems 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

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

logistics systems, including companies such as Dmatic, Swisslog, and SSI Schaefer. 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 Group, LTV and Westphalia among others.

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

In the Company's opinion, the major entry barriers in the Systems segment include the knowledge and experience required for analysis and design of logistics systems within organizations 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, in accordance with signed contracts, and its commitment to provide service for the constructed systems pursuant to annual service contracts.

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

1.10.7 Products and services:

The Systems segment does not include products (other than custom software for management of 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) material handling systems, designed to perform missions such as sorting, gathering, palleting, etc; (e) Command and control systems for the mechanical components of the system, including PLCs, sensors and control software.

Sometimes these components 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 <u>Trends and changes</u>

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 assimilation of automated logistics technologies in the Israeli market. In 2010, several leading companies in Israel began to examine and plan the integration of automated logistic systems in their operations[11]. Although there is no guarantee that these companies will carry out the plan to establish automated logistic systems, if they choose to do so, some may consider the integration of the Company's products and services within these systems.

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

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 activities in Israel in the Systems sector, the Company is examining possibilities for strategic collaborations outside of Israel (in the first stage primarily in the US), 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 automated parking facility in Mexico. The contract is for the supply and construction of an automated parking facility to a customer in the capital Mexico City and includes the supply of mechanic systems, control systems and software for managing automated parking lots. The project is estimated at €2.36 million and is scheduled to be completed in the second half of 2011 (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)

On February 3, 2011 the Company was informed that it won a tender for the construction of an automated warehouse for an Israeli customer. The project is estimated at an aggregate amount of NIS 30 million and it is scheduled for completion in the second half of 2012 (for details see Immediate Report concerning an Event or Matter Outside the Ordinary Course of Company Business dated February 6 , reference no: 038982-01-2011). The Company is presently in various stages of exploring possibilities of joining other projects for the construction of automated 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 operations in the Systems segment represent 18% 31% and 49% of its total revenues in 2008, 2009 and 2010, 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		
	2010	2009	2008
	In reported NIS thousand (and percentage of total revenues/gross profit, approximated)		
Systems	(49%) 74,598	(31%) 26,133	(18%) 14,597
Gross profit (loss) (amount and rate)	(13%) 9,889	(7%) 1,860	(4,052)

1.10.9 Customers

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

The services of the Systems Department are provided pursuant to agreements whose terms vary from case to case, but which generally incorporate a list of defined and detailed tasks, technical and functional specifications which the system that is being constructed will be required to meet, timetables (generally ranging from 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 Prospectus, the Company provided bank guarantees as aforesaid for a total cumulative sum of approx. NIS 9.6 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					
	2010		**2009**		**2008**	
	% of total revenues					
	Sales of the Systems Department	Total Company sales	Sales of the Systems Department	Total Company sales	Sales of the Systems Department	Total Company sales
Customer A	0.4%	0.2%	1.3%	0.4%	7.8%	1.4%
Customer B	74.1%	36.2%	34.30%	10.7%	0%	0%
Total sales to major customers	74.5%	36.4%	35.6%	11.1%	7.8%	1.4%

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 the 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.) (hereinafter in this section: "**the agreement**"), 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 while expansion works and additions to the agreement continued after this date, including an addition that was signed in April 2007 pertaining to expansion of the system for a total of NIS 10.5 million in addition to the NIS 23.5 million stipulated in the agreement. The engagement to set up the logistic system for customer A pursuant to the agreement ended in March 2008.

(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 for 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 recognizes revenues from this project in its financial statements based on the percentage of completion method, while the percentage of completion is determined based on completion of engineering stages of the work (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).

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 milestones set out 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. Under the agreement to set up an automated gathering system as stated above, Customer B was given the right to sell used equipment from the site to the Company. If this option is exercised, the consideration paid under this agreement will decrease by an immaterial amount, relative to the total consideration for the project. (For details see Immediate Report Concerning an Event or Matter Outside the Ordinary Course of Company Business dated May 12, 2009, reference no. 323901-01-2009).

1.10.10 Marketing and distribution

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

1.10.11 Order backlog

Selling the Systems Department's 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, 2010 – thousands of NIS	**Agreements to deliver Systems Department services as of February 5, 2011 (closest possible date to date of this report) thousands of NIS**
For Q1 2011	19,134	18,913
For Q2 2011	18,873	19,484
For Q3 2011	17,722	21,215
For Q4 2011	5,944	9,508
For 2012 and thereafter	1,658	25,595
Total	63,331	94,715

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 <u>Competition</u>

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

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

1.10.13 <u>Seasonality</u>

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 <u>Production capacity</u>

In the Systems segment, production capacity is in fact the Company's ability to implement projects on the scope and within the schedule ordered, and is primarily based upon the Company's internal staff, which was significantly increased in the years 2002-2006 and then readjusted for the number of projects in the years 2007-2008 (as detailed in section 1.6 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 utilizing most of this production capacity, taking into account existing agreements for the installation of systems in the course of 2010-2011.

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

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

1.10.15 Fixed assets 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, while the staff of each department employed and involved in the three business segment 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 relevant payment from the customer.

1.10.18 Working Capital

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

	2010		2009		2008	
	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	5,041	25	2,269	32	2,674	67
Suppliers	820	75	331	61	615	65
Subcontractors	3,263	28	659	21	2,246	192

1.10.19 <u>Standards and Quality Control</u>

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 <u>Business objectives and strategy</u>

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. The Company also aims to position itself as a leader in the field of automated parking systems worldwide and to expand its activity in this sector both in Israel and overseas by exporting its capabilities and 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 improve the management and control software programs for its proprietary logistics systems and automated parking systems, and to continue developing and improving these products on the basis of continuous analysis of market trends, market surveys conducted from time to time, and responses from customers and business entities with which it interacts. There is no assurance regarding the Company's ability to actually improve existing products and to develop new products in the systems sector, and this depends, among others, on analysis of market needs and consumer preferences as reflected by the Company's direct contacts with 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. Likewise, the Company is in various stages of exploring possibilities of joining other projects for the construction of automatic warehouses and/or parking facilities in Israel and around the world. There is no assurance regarding the Company's ability to maintain and develop its marketing channels for its Systems sector, and this depends, among other things, on analyses of marketing attributes and markets for Company services, conducted by the Company from time to time, and the long and complex sales process for such services, as detailed in this Prospectus. At the same time, the Company plans to continue, from time to time, to examine business opportunities in Israel and worldwide, which would allow expansion of its operations from the marketing and technological aspects. There is no certainty as to the 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 the 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 lot 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 specific export markets, with a view to expanding the scope of its target markets for these Systems Department activities, and in order to reduce its dependence in this regard on the Israeli market – primarily focused on the USA and South America[12].

The Company expects an increase in the development expenses, which are required for the development of components (modules) in this sector, intended, inter alia, for the purpose of reducing production costs in the Systems segment.[13]

6.10.22 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					
	2010		**2009**		**2008**	
	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	1%	0	-	-	-	-
Israel	97%	47%	86%	27%	95%	17%
North America	1%	0%	4%	1%	5%	1%
South & Central America	1%	2%	10%	3%	-	-

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

[13] 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 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 expenses related to 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 operating segments, which involves insignificant revenues and investments. This activity is primarily maintenance and servicing by its subsidiary, Unitronics Building Management and Maintenance (2003) Ltd. (hereinafter – "**Unitronix Management**"), in connection with the use of Unitronics Building (for details of subsidiary's operations, see section 6.21.1 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		
	2010	**2009**	**2008**
	NIS in thousands		
Revenues from Unitronics Management's operations	416	489	705

1.11.1 Structure of segment and changes therein

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

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

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

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

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

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

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

1.11.6 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 Building.

1.11.7 Breakdown 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 2008 through 2010.

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 regarding overall Company operations

1.12 Fixed assets, land, facilities, insurance and liens

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

1.12.1 Unitronics Building – Lease from the Israel Land Administration: The Company has leasing rights, under lease agreements dated April 16, 2008, in the ground floor (including basement) and first floor with a floor area of 1,295 m^2 and 841 m^2 attached yard area (hereinafter: "the Company's rights") of a building known as "**Unitronics Building**". The Company's interest in Unitronics Building is also designated as part of Block 8632, Lot 27 (after initial parcellation of the land marked "3" on Urban Zoning Plan GZ/MK/566/1) at the following address: Airport City, P.O.B. 300, Ben Gurion Airport, 70100, Israel (hereinafter – "**the Company's interest in Unitronics Building**"). The Company has also acquired rights to an additional lot of 1,000 square meters adjacent to Unitronics Building, serving as parking lot for the Company's employees and visitors (hereinafter: "**the parking lot**"). The Company's interest in Unitronics Building and the adjacent parking lot was granted by agreement dated July 23, 2000 with Airport City Ltd. (hereinafter: "**ACL**"), whereby the Company obtained capitalized leasing rights (91%) to the Company's floors for 49 years, with an optional lease extension for a further 49 years. On April 16, 2008, the lease contracts for the Company's interest in Unitronics Building were signed by the Israel Land Administration. On February 15, 2010, Unitronics Building was registered as a condominium in the Condominium Registry at the Land Registry Bureau.

The Company's interest in Unitronics Building serves as collateral to secure financing for acquisition of its interest in this property, as set forth in sections 1.16.2-1.16.3 of this prospectus. The amortized carrying amount of the Company's floors as of December 31, 2009 amounted to NIS 13,521 thousand. For its current operations, the Company fully uses the space on the Company's floors at Unitronics Building. The other floors at Unitronics Building (floors 2-4) are leased from ILA by a company controlled by the Company's controlling shareholder, who serves as the Company's Chairman and CEO (hereinafter: "**the private floors**") and are leased to third parties, except for 936 m^2 currently leased to the Company (as set forth below in section 6.12.2). The interest in the private floors was acquired about one month prior to acquiring the Company's interest in the Company floors, under a separate agreement, unrelated to the Company or to the agreement whereby the Company acquired its interest in the Company floors, at a price per m^2 based on the same pricing basis used by the Company to acquire its interest.

1.12.2 Unitronics Building - lease from controlling shareholder: In addition to the Company floors, which are used in full by the Company, the Company also leases space in the private floors based on its variable needs from time to time, under terms identical to those used to lease space in the private floors to third parties, which also reflect lease terms generally applicable at Airport City in general. Thus, from August 2004 through August 2005, the Company leased 196 m^2 on the private floors, and from August 2005 through

July 2009, the Company leased a further 436 m^2 under identical terms. The rent was originally set at \$13.52 per m^2 per month (plus management fee payable to ACL at \$1 per m^2 per month, and management fee at \$2 per m^2 per month payable to the Company's subsidiary, Unitronics Building Management and Maintenance (2003) Ltd., with respect to management of Unitronics Building), subject to a 4% increase after every 2 years of lease, whereas the Company may terminate the agreement at any time, subject to offering a substitute tenant acceptable to the lessor. The agreements, amendments there to and exercise of options based there upon have been approved by the Company's Audit Committee and Board of Directors as transaction with a controlling shareholder or with a Board member which does not require approval by the General Meeting (see immediate report dated March 26, 2007 and section 4.8.2 of this report, as well as immediate report, included hereby by way of reference, dated May 21, 2008 - reference no: 2008-01-141636 - as well as report of extraordinary transaction with Company officer, hereby included by way of references, dated May 21, 2008 - reference no: 2008-01-141642).

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

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

The Company's Audit Committee and Board of Directors have determined that growth in Company business, including employment of additional staff, require the leasing of additional space. The aforementioned transaction allows the Company to lease additional space in the fastest, most efficient manner in the same building and without incurring expenses for relocation nor expenses associated with the Company operating at multiple locations.

The Company Board of Directors did not view the aforementioned transaction as an "extraordinary transaction", as defined in the Corporate Act; however, for the sake of being conservative, the Company Audit Committee and Board of Directors decided to view this transaction as an "extraordinary transaction" and therefore to bring it up for approval by the General Meeting of Company shareholders, pursuant to section 270(4) of the Corporate Act. The Audit Committee and Board of Directors further determined that the transaction is at market conditions and in the normal course of business, and is not detrimental to the Company's best interest. (For details of approval of this transaction by the Company's Board of Directors and Audit Committee, see Immediate Report about Event or Matter Outside the Normal Course of Corporate Business, hereby included by way of reference, dated May 21, 2009, reference no: 2009-01-117399).

On July 29, 2009, the General Meeting of Company shareholders approved the lease transaction from a company controlled by Mr. SHANI, as set forth above (for details see Immediate Report on Outcome of General Meeting to Approve Transaction with a Controlling Shareholder and/or to Approve a Private Offer, hereby included by way of reference, reference 2009-01-182700, as well as an Immediate Report on Outcome of General Meeting dated July 29, 2009, reference no: 2009-01-182697).

As from March 1, 2008, the Company leases storage space with an area of 500 m^2 close to Airport City. The lease was signed for a 6-month term, and the Company has 6 options to extend the lease for a further 6-month term each. The rent paid by the Company, NIS 105,000 per year, is not material.

Furthermore, pursuant to an agreement dated August 23, 2010 with the same lessor, the Company leases as from August 8, 2010 an additional storage warehouse with an area of 500 m^2. The lease was signed for a 6-month term, and the Company has 6 options to extend the lease for a further 12-month term each. The rent paid by the Company, NIS 105,000 per year, is not material.
These warehouses are used by the Company to store components related to the products segment.

1.12.3. UNITRONICS Inc.: The subsidiary UNITRONICS Inc. leases from a third party not related to the Company and/or to interested parties there in, office space in Quincy, near Boston, MA with a total area of 1,520 square feet (141 m^2), leased through March 2011 for an annual rent of $35,000 through March 2010 and an annual rent of $37,000 through March 2011.

Unitronics Inc. also leases from a third party not related to the Company and/or to interested parties there in, office space in Fort Lee, NJ with a total area of 1,400 square feet (130 m^2), leased from November 1, 2010 through October 31, 2013 for an annual rent amounting to $36,000.

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

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

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

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

1.12.5 Insurance

The Company and its subsidiaries are insured under an insurance policy which in the Company's opinion, provide it with appropriate insurance coverage, as follows:

1.12.5.1. Property Insurance

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

1.12.5.2 Indirect damage insurance

The Company carries indirect damage insurance, which specifies fixed expenses and annual gross income at $10 million, plus miscellaneous other expenses at $250,000.

1 12.5.3. Third party insurance

The Company carries liability insurance for injury and/or property of third parties with coverage up to $5 million per event and for total damage incurred during the insurance term.

1.12.5.4 Officers Liability Insurance

For details, see section 4.17.4 of this report.

1.12.5.5 Insurance for UNITRONICS Inc.

The US subsidiary, Unitronics Inc. carries its own insurance coverage, separate from the Company's. This insurance includes property insurance, with coverage of $1 million per event and $2 million total coverage; employer liability and employee compensation insurance, with coverage up to $100 thousand for accidental injury, $100 thousand per employee for bodily injury caused by illness, and $500,000 in total for bodily injury caused by illness.

1.12.5.6. Miscellaneous other insurance

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

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

1.12.6 Liens

Other than liens listed in section 1.16.3 of this report, several Company cars are pledged in favor of leasing companies from which the Company leases these cars.

112.7. Geographic segments

For details of Company operations by geographical segment, see section 1.9.28 for products and section 1.10.22 for systems. The data below is for all Company operations:

Total non-current assets by geography

	2010	**2009**	**2008**
Israel	37,685	36,498	34,898
North America	255	247	227
Total non-current assets	37,940	36,745	35,125

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

1.13 Intangible assets

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

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

1.13.2. Patents and patent applications:

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

Also, in 2008-2009 the Company filed patent applications with regard to certain aspects resulting from development of technologies related to control of automatic parking systems. These applications were filed in the USA, as well as under the international Patent Cooperation Treaty (PCT). As of the date of this report, no patents have been granted for these applications.

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

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

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

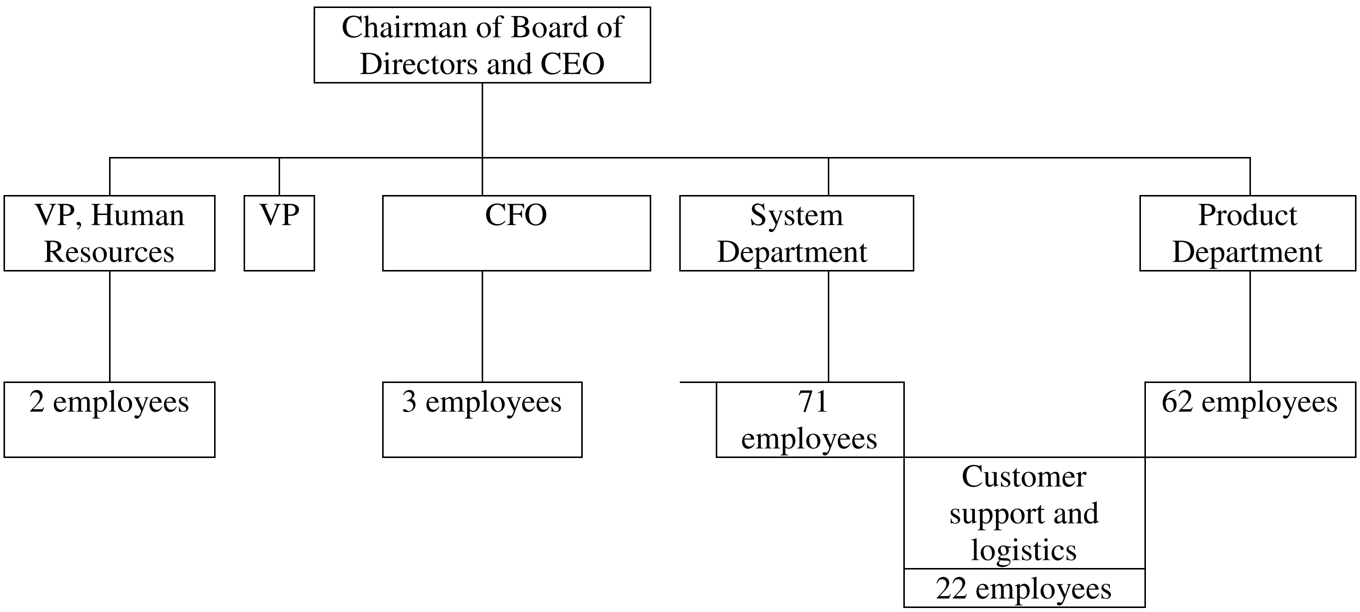
Over the years, the Company has filed applications with the US Patent and Trademark Office (USPTO) and with the Patent Registrar in Israel to register trademarks for various names, designs (logos) and samples used by the Company's different product ranges. Thus, the Company registered in the USA the trademarks OPLC ,JAZZ ,Visilogic and P^2 . From time to time, the Company files applications with the USPTO and with the Patent Registrar in Israel with regard to registration of various trademarks; it is uncertain whether these applications would be granted.

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

1.13.5 In 2010, 2009, 2008 and 2007 the Company invested NIS 0, NIS 0 and NIS 153,000, respectively in its intellectual properties.

1.14 Human resources

1.14.1. Organizational structure: The Company's controlling shareholder, Mr. HAIM SHANI, serves as Company Chairman and CEO[14]. Several executives report to the CEO, as per the chart below, in charge of technology, finance and human resources. The Company's commercial operations are carried out by the Product Department and the System Department, each headed by a senior executive or executive team, reporting to the CEO. The Company's organizational chart and staff headcount as of the date of this prospectus are as follows:



1.14.2 Company staff and composition: Soon prior to the date of this report, the Company employs a staff of 174 employees in Israel. Its subsidiary, Unitronics Inc. employs a staff of 6 employees (with no written individual employment contracts), and its subsidiary Unitronics Building Management & Maintenance (2003) Ltd. has no staff. Composition of Company staff in Israel by occupation upon the listed dates was as follows:

	Staff headcount			
Occupation	**Close to the report date**	**December 31, 2010**	**December 31, 2009**	**December 31, 2008**
Sales and Marketing	13	14	15	18
Research and development	41	31	24	26

[14] In accordance with resolutions by the General Meeting of Company shareholders dated April 13, 2004, July 3, 2007, and December 9, 2010 (for details, see immediate report concerning appointment of Board member (other than a corporation) or individual serving on behalf of a corporation which is a Board member, hereby included by way of reference, dated December 12, 2010, reference 2010-01-713496, as well as immediate report of Outcome of General Meeting, hereby included by way of reference, dated December 9, 2010, reference 2010-01-713490).

Administration	16	14	10	10
Manufacturing, logistics and quality assurance	48	51	40	42
Integration and support	56	56	43	34
Total	**174**	**166**	**132**	**130**

Staff headcount by profession

	Staff headcount			
Profession	**Close to the report date**	**September 30, 2010**	**December 31, 2009**	**December 31, 2008**
Clerks - administrative	7	7	8	12
Professional field technicians	18	19	21	16
Programmers (academic)	39	31	20	24
Engineers	34	30	17	15
Technicians, warehouse staff and mechanical assembly staff	18	18	22	25
Academic (general)	22	23	15	12
Practical engineers	36	38	28	26
Total	174	**166**	**132**	**130**

As of December 31, 2010, the subsidiary Unitronics Inc. had a staff of 7 employees and the subsidiary Unitronics Building Management & Maintenance (2003) Ltd. had no staff. As of December 31, 2008, the subsidiary Unitronics Inc. had a staff of 6 employees and the subsidiary Unitronics Building Management & Maintenance (2003) Ltd. had no staff. As of December 31, 2007, the subsidiary Unitronics Inc. had a staff of 6 employees and the subsidiary Unitronics Building Management & Maintenance (2003) Ltd. had no staff.

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

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

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

The Company grants, from time to time, to employees stock options under the stock option plan adopted by the Company (for details, see section 4.10.3 of this report). Other than as listed below in section 4.7.2, the Company is under no obligation to grant stock options to any employees; in practice, stock options are granted by the Company Board of Directors, based on recommendations made by management, at the sole discretion of the Company Board of Directors.

On March 6, 2008 an amendment was published to the Companies Regulations (Rules Concerning Remuneration and Expenses of Independent Board Members) (Amendment), 2008. Following the publication of the amendment, the Company's Board of Directors resolved on May 22, 2008 to update the annual remuneration and the remuneration for participation of independent Board members serving on the Company's Board of Directors, which, effective March 6, 2008, will amount to NIS 25,000 and NIS 1,590, respectively. In accordance with this resolution, this update would also apply to remuneration paid to another Board member who serves on the Board of Directors but is not an independent Board member (but neither is he an interested party, other than by virtue of serving as a Board member), who prior to this update was paid an annual remuneration and participation remuneration equal in amount to those paid to independent Board members of the Company (for details, see immediate reports, hereby included by way of reference, of Transaction with a Controlling Shareholder or with Board member which does not require approval by the General Meeting, dated May 21, 2008, references 2008-01-141624 and 2008-01-141627).

1.14.4 <u>Officers and senior management:</u>

For details of employment terms of Company officers and senior management, see section 4.7 of this report.
In the periods between April 13, 2007 and July 3, 2007 as well as between July 3, 2010 and December 9, 2010, Mr. Haim Shani ceased to serve as Chairman of the Board of Directors, upon the termination of authorization periods pursuant to the resolutions of the general meetings of shareholders of the Company authorizing him to serve as both Chairman of the Board and CEO of the Company. During these periods Ms. Bareket Shani, Mr. Haim Shani's wife who serves as director, Vice CEO and Vice President of Human Resources in the Company, also served as Chairman of the Board (for details see the following reports included hereby by way of reference: Immediate Report on senior officer who ceased to hold office dated April 15, 2007, reference no: 316466-01-2007, Immediate Report on appointment of senior officer dated April 15, 2007, reference no: 316469-01-2007, Immediate Report on senior officer who ceased to hold office dated July 3, 2007, reference no: 313678-01-2007, Immediate Report on appointment of director dated July 3, 2007, reference no: 313717-01-2007, Immediate Report on outcome of general meeting, dated July 3, 2007, reference no: 313657-01-2007, Immediate Report on senior officer who ceased to hold office dated June 30, 2010, reference no: 537480-01-2010, Immediate Report on appointment of director (which is not a corporation) or

individual who serves on behalf of a corporation who is a director, dated June 30, 2010, reference no: 537471-01-2010).

On December 9, 2010, Ms. Shani ceased to serve as Chairman of the Board (for details see Immediate Report on senior officer who ceased to hold office dated December 9, 2010, reference no: 713502-01-2010, which is hereby included by way of reference), and Mr. Shani who serves as CEO of the Company was appointed as Chairman of the Board for a period of three years (for details see Immediate Report on appointment of director (which is not a corporation) or individual who serves on behalf of a corporation who is a director, dated December 9, 2010, reference no: 713496-01-2010). This resolution was approved by the general meeting of shareholders of the Company on December 9, 2010 (for details see Section 1 of Immediate Report on outcome of general meeting, which was published on December 9, 2010, reference no: 713490-01-2010, which is hereby included by way of reference).

The Company is materially dependent on continued service by Mr. Haim Shani and Ms. Bareket Shani.
Loss of services of Mr. Shani or Ms. Shani may materially impact the Company's financial results.
This material dependence on continued service by Mr. Haim Shani and Ms. Bareket Shani is due, *inter alia*, to the following:

(1) As Company founders, Mr. Shani And Ms. Shani have long-standing, close and direct knowledge of all technologies and products being developed, manufactured and distributed by the Company, from its inception to date, as well as with markets, customers and service providers of the Company.

(2) Mr. Shani and Ms. Shani have a well-known reputation in the Company's business area, and the Company's reputation is tightly linked to the fact that Mr. Shani and Ms. Shani are controlling shareholders and officers of the Company.

(3) Consequently, Mr. Shani And Ms. Shani are actively involved in all levels of the daily operation of the Company, and replacing them would require a very long training process, as well as replacements with similar knowledge and experience to those of Mr. Shani and Ms. Shani, which would require significant resources.

(4) Furthermore, replacing Mr. Shani and Ms. Shani may involve significant cost, in view of the low pay they have been receiving from the Company over the years, compared to similar officers in companies of a similar size.

1.14.5. <u>The Company’s investment in training and practice:</u> The Company provides internal training for staff in different departments, primarily in the field of work health and safety. This training is delivered by the Company's Safety Manager, as part of his job duties and compensation. The Company also provides, as part of international marketing operations and support for its distributors, professional training for distributors and regional sales staff. This training is delivered by Company support teams, at facilities of overseas distributors, and include presentation of new developments, as well as expansion of their knowledge of operation and marketing of current products. In the USA, regional training is delivered from time to time, attended by sales staff and distributors from near-by states. The cost of this training is included under the Company's sales and marketing expenses - the Company does not maintain a separate budget dedicated to these expenses.

1.15 Investments

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

1.16 Financing

1.16.1 Company operations are financed using the Company's own equity as well as external financing sources. The Company's external financing sources (NIS in thousands) are as follows (the data below also includes amounts of special-purpose loan described below in section 1.16.2):

Credit type	As of December 31, 2010			As of December 31, 2009		
	Credit amount, NIS in thousands	Interest rate	Effective interest	Credit amount, NIS in thousands	Interest rate	Effective interest
Short-term bank credit (checking account)	-	-	-	-	-	-
Long-term bank credit (USD)	2,710	LIBOR + 2.02%	LIBOR + 2.02%	3,295	LIBOR + 2.02%	LIBOR + 2.02%
Long-term bank credit (EUR)	15,637	LIBOR + 2.075%-1.93%	LIBOR + +2.02%	4,017	LIBOR + 2.02%	LIBOR + 2.02%
Unlinked lease financing	381	9.9%	9.9%	454	9.9%	9.9%
Debentures (Series 2) CPI-linked	17,207	CPI + 6.1%	CPI + 9.57%	22,123	CPI + 6.1%	CPI + 9.57%
Convertible debentures (Series 1) (USD-linked)	-	LIBOR** + 2.5%	LIBOR** + 3.55%	8,409	LIBOR** + 2.5%	LIBOR** + 3.55%
Convertible debentures (EUR-linked)	-	-	-	-	-	-

** Six-month LIBOR; *** As from May 2006

The above table lists "Short-term bank credit (USD)" in the amount of NIS 2,710,000, and "Long-term bank credit (EUR)" in the amount of NIS 15,637,000. This credit is secured

by liens on Unitronics Building. The loan balance is NIS 5.8 million, as described below in section 1.16.2.
The above table also lists "Non-linked lease financing", in the amount of NIS 381,000, secured by liens on vehicles.
There are no liens on the Company's investment portfolios.

As of December 31, 2010, the Company has current credit facilities (excluding credit for financing acquisition of Company interest in the Company floors, as described below), amounting to NIS 22.6 million - primarily with respect to provision of bank guarantees to secure Company obligations pursuant to systems-related agreements, as listed above. As of the date of this report, current credit facility utilization amounted to NIS 22.2 million. Since December 31, 2010, the Company did not obtain any additional material credit. Although as of the date of this report, the Company has no knowledge of any restrictions, it is uncertain whether these credit facilities would be renewed or whether the Company would be granted alternative credit facilities under similar terms and conditions or otherwise. Furthermore, credit documents signed by the Company and some Israeli banks stipulate that the bank's consent is required in certain cases of change in Company shareholders.

The Company may not pledge any of its assets in favor of any third party without the prior written consent of Bank Leumi Le'Israel Ltd.

As of December 31, 2010 and the reporting date, the Company is in compliance with all the applicable covenants with regard to credit granted by third parties.

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 13,735,000 provided to the Company by the Industrial Development Bank of Israel Ltd. (hereinafter: the “**Industrial Development Bank**”), in accordance with the financing terms agreed between the parties on July 12, 2000.

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

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

The outstanding debt to Bank Leumi as of December 31, 2010 in respect of the New Credit Facility is about NIS 5,770,000.

1.16.3 As part of financing 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 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.

1.17 <u>Taxation</u>

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

The subsidiary, Unitronix Inc. is taxed under US tax laws and there is not entitled to benefits pursuant to the Encouragement of Industry (Taxes) Law, 5729-1969. The Federal tax rate applicable to the subsidiary ranges between 15% and 35%; the state tax law applicable to the subsidiary (in the State of Massachusetts) is 8.75%.

1.18 <u>Limitations on and supervision of Company activities</u>

1.18.1 <u>Business license:</u> 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 *Chevel Modi'in* Regional Council.

1.18.2 <u>Work safety</u>: 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 <u>Ministry of Defense:</u> the Company is a recognized supplier to the Israeli Ministry of Defense as a manufacturer, distributor and service provider in the automated warehouse sector, as of November 25, 2002.

1.19 <u>Material agreements and cooperation agreements</u>

1.19.1 <u>The agreements listed above:</u> The agreements listed in sections 1.4.1, 1.4.6, 1.9.13, 1.10.7.2, 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 <u>Acquisition of Company rights in Company Floors at Unitronics Building and financing of the acquisition:</u> On July 23, 2000 the Company entered into an agreement concerning the purchase of rights in certain floors in the Unitronics Building, as detailed in section 6.12. above, under the financing terms specified in sections 1.16.2 and 1.16.3 above.

1.19.3 <u>Bonds (Series 2):</u> 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: "**Hermeti**c"), as trustee for the bonds (Series 2) offered under the 2006 Prospectus. The trust deed includes provisions as to the trustee's authority concerning waiver, settlement, amendments to the trust deed, declaring the bonds immediately due and payable, convening meetings of bondholders, and concerning the proceedings at meetings of bondholders, voting at such meetings, indemnification of the trustee, replacing the trustee and expiry of the trustee's office.

The Trustee's details are set forth below:

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

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

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

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

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

For additional details on outstanding debentures (Series 2), see section 2.10 of this report.

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

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

The Trustee's details are set forth below:

1. Name of the Trustee Reznick, Pax, Nevo Trusts Ltd.
2. Name of person in charge of the series Yossi Reznick, CPA
3. Means of communications:
   3.1 Telephone 03-6389200

3.2 Fax 03-6393316
3.3 Email trust@rpn.co.il
3.4 Postal address 14, Yad Harutzim St., Tel-Aviv

1.20 Legal Proceedings

6.20.1 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, that Unitronics' actions do not infringe the defendant's intellectual property rights and that the defendants deliberately interfered in contractual relations between the Company and its customers and distributors.

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

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

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

The Company estimates that this lawsuit does not pose any real risk to the Company.

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 €800,000.

In 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, 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, the lawsuit contends that 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 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 Dispute with Robotic Parking

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

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

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

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 19, 2010.

The Company and Robotic each appealed the ruling, and on March 23, 2010 these appeals were rejected. The Company the said decision appealed again and its appeal was dimissed.

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 Robotics' attempts to obtain information at the disposal of Hoboken City. The Company's request was rejected on June 18, 2010 and the Company subsequently lodged an additional appeal.

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

The rulings in the above appeals have been postponed pending the completion of arbitration proceeding between the parties under the court's supervision. Despite negotiations for a compromise, which were held on December 20, 2010, in connection with the above proceeding and other proceedings as set forth below regarding Robotics and Hoboken, the parties were unable to reach agreements.

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

1.20.4 Dispute with Hoboken City Hall in New Jersey

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

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

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

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

On July 6, 2010, the Company petitioned the court to order Hoboken City Hall to pay legal fees and legal expenses in the amount of US$ 300,000 in connection with the proceeding against Robotics.

The court dimissed the Company's petition, stating that there was more than one way to interpret the clauses of the agreement, which relate to reimbursement of the Company's expenses.

As part of negotiations for a compromise, which were held on December 20, 2010 in connection with the aforesaid proceedings regarding Robotics and Hoboken, the parties were unable to reach agreements.

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

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

1.21.1.2 Registered and issued capital, the Company's share

As of the date of this Report, the registered capital of Unitronics Management is NIS 100,000, divided into100,000 ordinary shares of NIS 1 par value each., of which 1,000 shares have been issued, all of them held by the Company.

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

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

1.21.1.4 Loans, credit, guarantees, investments in the Company

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

1.21.1.5 Holders of more than 25% of the share capital

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

1.21.1.6 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 officers in Unitronics Management

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

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

1.21.1.8 Profits/ (losses) of Unitronics Management

For information regarding profits (losses) of Unitronix Management see table in section 1.21.3 below.

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

As of the date of this Prospectus, the registered share capital of Unitronics Inc. is $10, divided into 1,000 shares of $0.01 par value each, all of which have been issued to 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

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

1.21.2.4 Loans, credit, guarantees, investments in the Company

The capital deficiency of Unitronics Inc. as of December 31, 2010, amounts to NIS 7,134,000. The current debt balance of Unitronics Inc, to the Company amounted to NIS 4,242,000 as of December 31, 2010. In addition, the Company has provided Unitronix Inc. with capital notes for an aggregate amount of NIS 9 million, unlinked and not bearing interest, as set forth in note e(3) of a special report pursuant to Regulation 9c in Chapter C.

1.21.2.5 Holders of more than 25% of share capital

As of the date of this Prospectus, 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 Prospectus, 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 officers in Unitronics Inc.

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.**

	For the year ended December 31, 2010		**For the year ended December 31, 2009**		**For the year ended December 31, 2008**	
	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 in thousand					
Profit (loss) before tax	(490)	(13)	(133)	(226)	(1,046)	(58)
Profit (loss) after tax	(490)	(13)	(133)	(226)	(1,046)	(58)
Dividend	0	0	0	0	0	0
Management fees	0	0	0	0	0	0
Interest income	0	0	0	0	0	0

1.21.4 **Inactive subsidiaries:**

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

1.22 Discussion of risk factors

The following are risk factors affecting the Company (both in the Products and in the Systems segments), 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 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.	Medium
	Currency exposure: the Company is exposed to changes in the rates of exchange of the US dollar and the euro. See sections 1.9.11 and 1.10.17.	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 section 1.23.6	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 hurt its reputation.	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 section 1.9.9 (in relation to the products segment) and sections 1.10.7.2 and 1.10.12 (in relation to the systems segment) as set forth above.	High
	Standardization: the Company is exposed to risks deriving from the failure of its products or services to comply with certain standardization requirements as set forth in sections 1.9.25 and 1.9.24 above.	Medium
	Raw materials: the Company is exposed to risks deriving from temporary shortages in electronic components worldwide and limited allocations of components (allocations and compatibility to the RoHS directive) by component manufacturers in cases of excess demand, as set forth in section 1.9.22 above.	Medium
	Penetration into the automated parking lots segment: the Company is exposed to risks relating to its automated parking lot business and the pace of assimilating automated solutions by global customers, as set forth in sections 1.10.1 (b), 1.10.3 and 1.10.7.2 above.	Low

	RoHS and WEEE directives: the Company is exposed to risks deriving from the possibility that its products or services will fail to comply with the requirements of European directives, as set forth in sections 1.9.2 and 1.9.25 above.	Low
	Development off technologies 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 doubtful as set forth in sections 1.9.7 and 1.9.12 above.	Low
Risks unique to the Company	*One-off projects*: a significant portion of the Company's revenues stem from a small number of material one-off transactions, consistent with the nature of operation in the Systems sector, as set forth in sections 1.9.13 and 1.10.9 above.	Medium
	Dependence on the Israeli market: the Company's activity in the Systems segment is dependent on the Israeli market, which tends to be affected more than overseas markets by macro risks and the sector-related risks described above, and the demand for projects in this segment is smaller than the demand on corresponding 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 section 1.14.4 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 floors (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, 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 stands at some NIS 36 million as of December 31, 2010, as set forth in section	Medium

	1.9.23 above.	
	Unregistered intellectual property: the Company has certain items of intellectual property that are not registered (although the Company also has registered intellectual property). The Company is exposed to risks deriving from the non-registration of those intellectual property items respecting which applications are pending (for details see sections 1.9.21, and 1.13.2) 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 (EUR 3.72 per share) , and on the Tel Aviv Stock Exchange, at prices lower than those of the public offering in May 2004 (NIS 7.55 per share). There is no certainty that the price of the Company's share on the Stock Exchange will not continue to decline. Also, the volumes of trading in the Company's shares on the Stock Exchange in Belgium and on the Tel Aviv Stock Exchange are generally low and different, a fact which adversely affects their marketability.	Low
	Absence of arbitrage on the Stock Exchange in Israel and in Belgium: even though the Company's shares are trade on the EuroNext Stock Exchange in Belgium and on the Tel Aviv Stock Exchange, it is not possible at this stage to hold parallel trading of the Company's shares on those two Stock Exchanges in real time. Under these circumstances, from time to time, gaps are created in the prices of the shares on those Stock Exchanges. There is no certainty that these gaps will shrink. Investors in the Company's securities, and also, under certain circumstances, the Company, are liable to sustain damages as a result of these gaps.	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				
	1-3/2010	4-6/2010	7-9/2010	10-12/2010	1-12/2010
Revenues	36,350	36,116	37,979	42,534	152,979
Cost of revenues	24,842	26,716	27,082	30,085	108,725
Gross income	11,508	9,400	10,897	12,449	44,254
R&D expenses, Net	644	912	811	827	3,194
Selling and marketing expenses	2,311	2,673	3,006	3,199	11,189
General and administrative expenses	1,670	1,402	2,616	2,293	7,981
Other revenues	-	-	-	99	99
Operating income	6,883	4,413	4,464	6,229	21,989
Financing revenues (expenses), Net	(8,068)	(4,263)	1,954	(633)	(11,010)
Income (loss) after financing	(1,185)	150	6,418	5,596	10,979
Income (loss) for the period	(1,185)	150	6,418	5,596	10,979

2.2 Explanations with regard to financial statements (Reg. 10)

2.2.1 General

The Company is engaged, via its Products Division, in design, development, production, marketing and support of PLCs (programmable logic controllers) - computer-based electronic devices (hardware and software) used for control of automated machines, such as production systems and automated industrial systems for storage, retrieval and logistics. The Company is also engaged, through its Systems Division, in design, construction and maintenance services in the framework of projects for automation, computerization and integration of computerized production and/or logistics systems, mainly automatic warehouses, automated distribution centers and automated parking facilities. The Company is also engaged, via a subsidiary, in management and maintenance of UNITRONICS Building.

2.2.2 Major events during the reported period and through publication

Change of Chairman of the Company Board of Directors

On July 3, 2010, the Company CEO, Mr. HAIM SHANI, concluded his 3-year term in office as Chairman of the Company Board of Directors (for details see immediate report of senior officer who concluded their office, dated June 30, 2010 reference no. 2010-01-537480, included here in by way of reference).

On July 3, 2010, Ms. BAREKET SHANI, who serves as Board member, Deputy CEO and VP, Human Resources with the Company, assumed the office of Chairman of the Board of Directors, succeeding Mr. SHANI (for details see immediate report of appointment of Board member (other than a corporation) or individual serving on behalf of a corporation which is a Board member, dated June 30, 2010 reference no. 2010-01-537471, included here in by way of reference).

On December 9, 2010, Ms. RIKI SHANI concluded here term in office as Chairperson of the Board of Directors, and was succeeded by Mr. HAIM SHANI, the Company CEO (for details see immediate report of senior officer who concluded their office, dated December 9, 2010 reference no. 2010-01-713502 and immediate report of appointment of Board member (other than a corporation) or individual serving on behalf of a corporation which is a Board member, dated December 9, 2010 reference no. 2010-01-713496, included here in by way of reference).

Share buy-back programs

On March 4, 2010, the Company Board of Directors adopted a Company share buy-back program ("the second program"), which superseded a previous program ("the first program") of the Company on this issue, where the unutilized balance has expired. Under the second program, the Board of Directors has authorized the Company to 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 valued at up to NIS 1.5 million (including purchase-related expenses, such as fees of consultants, service providers and agents in conjunction with the purchase, such that the expected cost of the program should not exceed NIS 1.5 million). The term of the second program was through June 30, 2010. (For details, see immediate report on an event or matter outside the normal course of Company business, dated March 4, 2010, Reference No. 2010-01-404196, included here in by way of reference.)

On May 23, 2010, the Board of Directors adopted a new program for buy-back of Company shares ("the third program"), which superseded the aforementioned second plan (after the Company purchased, under the second program and through the term there of, shares valued at NIS 820 thousand, out of a total of NIS 1.5 million). Under the third program, 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 Company shares valued at up to NIS 1.5 million (including purchase-related expenses, such as fees of consultants and service providers in conjunction with the purchase, such that the expected cost of the program should be up to NIS 1.5 million). The term of the third program was through September 30, 2010. (For details, see immediate report on an event or matter outside the normal course of Company business, dated May 23, 2010, Reference No. 2010-01-489135, included here in by way of reference.)

On November 11, 2010, the Board of Directors approved the adoption of a new buyback program of Company shares (the "new program"). Under the new program, 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 Company shares valued at up to NIS 1.5 million (including purchase-related expenses, such as fees of consultants and service providers in conjunction with the purchase, such that the expected cost of the program should be up to NIS 1.5 million). (For details of the new program, see immediate report on an event or matter outside the normal course of Company business, dated November 11, 2010, Reference No. 2010-01-676662, included here in by way of reference.)

As of the reporting date, the Company holds a total of 1,556,239 shares that were purchased as aforementioned (out of 11,678,504 Ordinary Shares in the Company's issued share capital) for a total cost of NIS 6,365 thousand. For as long as the Company holds these shares, they constitute "dormant shares" as defined in the Corporate Act, 1999. For further details with regard to these purchases, see immediate reports issued by the Company from time to time with regard to these purchases starting on August 18, 2005.

Payment for debentures (Series 1)

On May 23, 2010, the Company made the fourth and final payment of principal and interest for debentures (Series 1), issued by the Company in 2004 pursuant to the Company prospectus dated May 12, 2004. (For details, see immediate report of payment of principal of debentures (Series 1) dated May 23, 2010, Reference No. 2010-01-489102, included here in by way of reference.)

After this payment, there are no outstanding debentures (Series 1) convertible into Company shares under terms and conditions of said debentures.

Exercise of options (Series B)

On April 22, 2010, the Company was notified of exercise of 1,958 options (Series 2) allotted by the Company in 2006 pursuant to the prospectus dated August 16, 2006, into Company ordinary shares, for which the Company allotted 1,958 ordinary shares.

After this exercise, there are outstanding 598,042 options (Series 2) (through their expiration as set forth below) convertible into Company shares, under terms and conditions of these options (for details see immediate report of capital and securities registries of the corporation and changes there to, dated April 22, 2010 reference no. 2010-01-456504 included here in by way of reference).

Furthermore, subsequent to this allotment, the Company's issued share capital increased to 11,678,504 ordinary shares.

Expiration of options (Series 2)

On August 24, 2010, the balance of 598,042 options (Series 2) allotted by the Company in conjunction with a prospectus issued by the Company on August 16, 2006 ("the **2006 prospectus**") which had been convertible into Company shares under terms and conditions of said options (for details see immediate report of capital and securities registries of the corporation and changes there to, dated August 24, 2010 reference no. 2010-01-597303 included here in by way of reference).

Payment for debentures (Series 2)

On August 25, 2010, the Company made the second of five payments of principal for debentures (Series 2), issued by the Company pursuant to the 2006 prospectus (for details, see immediate report of payment of principal of debentures (Series 2) dated August 25, 2010, Reference No. 2010-01-598479, included here in by way of reference.)

Subsequent to this payment there are outstanding 16,140,000 debentures (Series 2).

Changes in holding stake of interested parties

Due to the aforementioned debenture payments, exercised options and share buy-back by the Company as set forth above and below, and due to payment of principal and interest for debentures (Series 1), the holding stake in the Company of Mr. HAIM SHANI, Company CEO and controlling shareholder, has increased. Mr. SHANI's holding stake as of May 23, 2010 is: 59.14% of capital and 59.14% of voting rights (and fully diluted after the change: 54.87 of capital and 54.87% of voting rights).

In consequence of the aforementioned option expiration and share-buy back by the Company, the holding stake of Mr. HAIM SHANI, Company CEO and a controlling shareholder therein, has increased. Mr. SHANI's holding stake as of publication of this report is: 60.65% of capital and 60.65% of voting rights (and fully diluted after the change: 59.42% of capital and 59.42% of voting rights).

Renewal of Board member and officer liability insurance policies

The Company has a directors and officers liability insurance policy for a sum of USD 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 USD 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 USD 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.

On March 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 Board member that does not require the approval of the General Meeting, dated March 4, 2010, Reference No. 2010-01-404205, included here in by way of reference).

Bonus to Company Chairman and CEO

On April 12, 2005, the General Meeting of Company shareholders approved (after approval by the Audit Committee and Board of Directors) 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**") within 30 days from the approval date 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 Company's pre-tax income in that year (cost to the Company) ("the **framework transaction**") (for details see immediate report of outcome of General Meeting of Company shareholders, dated April 12, 2005).

In accordance with the Company's 2009 annual financial statements and in view of the foregoing, the Company paid Mr. HAIM SHANI for 2009 a bonus amounting to NIS 689 thousand ("the **bonus**") (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. 2010-01-404199 included here in by way of reference).

In accordance with the Company's 2010 annual financial statements and in view of the foregoing, the Company intends to pay Mr. HAIM SHANI for 2010 a bonus amounting to NIS 893 thousand ("the **bonus**") (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 8, 2011 Reference No. 2011-01-073104 included here in by way of reference).

Agreement to construct automated warehouse

On May 9, 2010, the Company signed an agreement to construct an automated warehouse in Israel (in this section, "**the agreement**"). The agreement is effective as from April 30, 2010 - the date the agreement was signed by the client.

The project is estimated at €1.7 million - a material amount for the Company. The consideration is payable based on progress milestones for the project. The project is expected to be completed in early 2011. To secure its obligations under the agreement, the Company committed to provide bank guarantees, and consented to agreed damages in certain cases (for details, see immediate report on an event or matter outside the normal course of Company business, dated May 9, 2010, Reference No. 2010-01-474579, included here in by way of reference).

Contract with sub-contractor for outsourced production

Further to Company policy with regard to sub-contracting certain production operations (see section 1.9.18 above), on September 16, 2010 the Company entered into a non-exclusive agreement to procure outsourced production services from a sub-contractor in Israel, which is not related to the Company nor to any interested party there in. These services include procurement of components as well as production, assembly, testing and packaging of some Company products. The Company is reviewing potential sub-contracting of additional production processes to this sub-contractor.

Change of Senior officers

On November 15, 2010, Mr. ALON KEDAR concluded his 11-year term in office as Deputy CEO and Manager, Products Division (for details see immediate report of senior officer who concluded their office, dated October 26, 2010 reference no. 2010-01-659811, included here in by way of reference).

On October 26, 2010, Mr. AMIT HARARI was appointed Deputy CEO and Manager, Products Division, replacing Mr. KEDAR (for details see immediate report of appointment of senior officer, dated October 26, 2010 reference no. 2010-01-659817, included here in by way of reference).

2011 Prospectus

On February 23, 2011, the Company issued a shelf prospectus ("**2011 Prospectus**"). The Company has yet to offer securities to the public pursuant to the 2011 Prospectus, and has yet to issue a shelf offering report pursuant there to. For details see section 1.4.7 above.

Award of tender to construct automated warehouse

On February 3, 2011, the Company was notified that it was awarded the tender to construct an automated warehouse for a client in Israel. The project is valued at NIS 30 million and is expected to be completed in the second half of 2012 (for details, see immediate report on an event or matter outside the normal course of Company business, dated February 6, 2010, Reference No. 2010-01-038982, included here in by way of reference).

Adoption of internal procedures with regard to reporting obligations

On February 2, 2011, the Company Board of Directors adopted internal procedures designed to extend and intensify existing internal controls at the Company with regard to Company compliance with its statutory reporting obligations.

2.2.3 Financial position

Assets

Total assets on the Company's consolidated balance sheet as of December 31, 2010 increased to NIS 127,031 thousand, compared to NIS 105,407 thousand as of December 31, 2009. The increase is primarily due to increase in inventory, as set forth below.

Cash and cash equivalents and negotiable securities, as of December 31, 2010 and as of December 31, 2009, amounted to NIS 36,242 thousand and NIS 34,947 thousand, respectively. These items were essentially unchanged.

Trade receivables and other accounts receivable as of December 31, 2010 and as of December 31, 2009 amounted to NIS 14,219 thousand and NIS 13,384 thousand, respectively.

Inventory as of December 31, 2010 and as of December 31, 2009 amounted to NIS 29,898 thousand and NIS 11,953 thousand, respectively. The increase is primarily due to specific procurement of raw materials required due to longer lead times for electronic components. The Company believes this trend may continue, impacting now and possibly in the future the lead times for Company products, and may generate other potential exposures (for details, see section 1.9.6 of this report). As of the date of this report, no data has been collected to enable quantification of said exposure (for means to handle the aforementioned exposures - see details of Company policy on market risk management in section 2.3 below). For further details with regard to raw materials, suppliers and inventory, see Chapter A (section 6.9.23.1) of the 2011 Prospectus.

Inventory of work in progress remained essentially unchanged, amounting to NIS 7,461 thousand as of December 31, 2010, compared to NIS 7,835 thousand as of December 31, 2009.

Fixed assets were essentially unchanged, amounting to NIS 21,819 thousand as of December 31, 2010, compared to NIS 21,849 thousand as of December 31, 2009.

Intangible assets were essentially unchanged, amounting to NIS 15,717 thousand as of December 31, 2010, compared to NIS 14,737 thousand as of December 31, 2009. The major component of this item is recognizing development assets of the Company, relative to development cost which meets the criteria for recognition as intangible asset, offset by current amortization.

Liabilities

Total short-term credit and current maturities of long-term liabilities amounted to NIS 10,234 thousand as of December 31, 2010, compared to NIS 15,292 thousand as of December 31, 2009. The decrease is primarily due to repayment of current maturities of convertible debentures (Series 1) in the second quarter of 2010, less increase in current maturities of long-term borrowing obtained during the reported period, as set forth below.

Trade payables increased, amounting to NIS 25,755 thousand as of December 31, 2010, compared to NIS 10,755 thousand as of December 31, 2009. The increase in this item is primarily due to increase in Company operations and to material increase in inventory, as set forth above.

Liabilities with respect to embedded derivatives amounted to NIS 3,951 thousand as of December 31, 2010, compared to NIS 1,501 thousand as of December 31, 2009. The increase in this item is primarily due to lower EUR/NIS exchange rate in the reported periods, mainly reflected in the first half of 2010. The Company has sales agreements denominated in currencies other than its functional currency. These contracts include embedded derivatives denominated in foreign currency.

Other accounts payable remained essentially unchanged, amounting to NIS 23,648 thousand as of December 31, 2010, compared to NIS 24,751 thousand as of December 31, 2009.

Total non-current liabilities as of December 31, 2010 and as of December 31, 2009 amounted to NIS 27,284 thousand and NIS 23,943 thousand, respectively. The increase is primarily due long-term bank loans obtained in the reported periods.

Working capital of the Company as of December 31, 2010 and as of December 31, 2009 amounted to NIS 25,503 thousand and NIS 16,263 thousand, respectively. The increase is primarily due to increase in inventory and cash items, less increase in trade payables - as set forth above.

Shareholders' equity of the Company as of December 31, 2010 and as of December 31, 2009 amounted to NIS 36,159 thousand and NIS 29,065 thousand, respectively. The increase is primarily due to cumulative net income in the reported periods, less buy-back of Company shares, as set forth above.

2.2.3.1 Analysis of financial standing by operating segment

As set forth above, the Company's commercial operations are primarily performed by two business departments, the Products Department and the Systems Department. For further details concerning the sectors of the Company’s operations, see Chapter A (sections 1.8, 1.9, 1.10 and 1.11) above. Concurrently, the Company is engaged, via subsidiary UNITRONICS Management & Maintenance (2003) Ltd., in management and maintenance of UNITRONICS Building.

The Products segment

Total assets used by the Products segment as of December 31, 2010 amounted to

NIS 40,665 thousand, compared to NIS 21,667 thousand as of December 31, 2009. The change is primarily due to increase in inventory used by this segment.

Total liabilities for the Products segment as of December 31, 2010 increased to NIS 17,057 thousand, compared to NIS 9,767 thousand as of December 31, 2009. The increase in this item is primarily due to increase in Company operations in this segment and to increase in trade payables, as set forth above.

The Systems segment

Total assets used by the Systems segment as of December 31, 2010 was essentially unchanged at NIS 13,283 thousand, compared to NIS 13,356 thousand as of December 31, 2009.

Total liabilities for the Systems segment as of December 31, 2010 amounted to NIS 33,080 thousand, compared to NIS 22,267 thousand as of December 31, 2009. The increase in this item is primarily due to increase in Company operations in this segment, resulting in increase in trade payables as set forth above.

UNITRONICS Building Management & Maintenance

Total assets used by UNITRONICS Building Management & Maintenance were essentially unchanged as of December 31, 2010, amounting to NIS 36 thousand, compared to NIS 38 thousand as of December 31, 2009.

Total liabilities used by UNITRONICS Building Management & Maintenance were essentially unchanged as of December 31, 2010, amounting to NIS 96 thousand, compared to NIS 131 thousand as of December 31, 2009.

Assets and liabilities not assigned to a specific operating segment

Total assets not assigned to any specific operating segment were materially unchanged as of December 31, 2010, amounting to NIS 73,047 thousand, compared to NIS 70,346 thousand as of December 31, 2009.

Total liabilities not assigned to any specific operating segment as of December 31, 2010, amounted to NIS 40,639 thousand, compared to NIS 44,177 thousand as of December 31, 2009. The decrease in this item is primarily due to maturity of convertible debentures (Series 1), maturity of debentures (Series 2) and share buy-back by the Company, less long-term loans obtained.

2.2.4 Operating Results

Revenues

Company revenues in the year ended December 31, 2010 amounted to NIS 152,979 thousand, an increase of 82% compared to NIS 84,118 thousand in the year ended December 31, 2009 and to NIS 79,720 thousand in 2008. The year-over-year increase in 2010 and in 2009 is primarily due to revenues of the Products segment, as set forth below.
Revenues of the Products segment in the year ended December 31, 2010 amounted to NIS 77,965 thousand, an increase of 36% compared to NIS 57,496 thousand in the year ended December 31, 2009 and to NIS 64,418 thousand in the year ended December 31, 2008.
The Company believes that the year-over-year increase in 2010 in Product revenues, following an 11% year-over-year decrease in Product revenues in 2009, is due to impact of the financial crisis in global markets started in mid-2008 on Product sales, whereas in 2010, Product sales trended up, to levels typical of pre-crisis years (for details see section 1.9.27 of this report).
Revenues of the Systems segment in the year ended December 31, 2010 amounted to NIS 74,598 thousand, an increase of 185% compared to NIS 26,133 thousand in the year ended December 31, 2009 and to NIS 14,597 thousand in the year ended December 31, 2008, an increase of 180%. The significant increase is due to changes in rate of orders received from customers for construction of logistics systems by the Company's Systems Division in the reported periods - primarily design and construction of logistics system for a customer in Israel (for details see section 1.10.9b of this report) and the actual progress rate of these system construction projects.
Revenues from the Products segment in the year ended December 31, 2010 constituted 51% of total Company revenues for the year, while revenues from the Systems segment in the same period constituted 49% of total revenues (less than 1% accounted for by other revenues). Revenues from Products for the year ended December 31, 2009, were 68% of total Company revenues for that year, whereas revenues from Systems for the same period were 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 were 18% of total revenues.

Cost of Revenues and Gross income

Total gross income for the year ended December 31, 2010 amounted to NIS 44,254 thousand (or 29% of total revenues for the period). Total gross income for the year ended December 31, 2009 amounted to NIS 28,733 thousand (or 34% of revenues for the period), compared to NIS 25,964 thousand for the year ended December 31, 2008 (or 33% of revenues for the period).

The decrease in gross margin for the year ended December 31, 2010 compared to previous periods is primarily due to change in revenue mix from different segments (higher share of revenues from Systems segment compared to revenues from Products segment), as set forth above. Gross margin for the Systems segment is lower than for the Products segment, thus when the revenue mix increases on the Systems segment side, the weighted gross margin declines, and vice versa.

R&D expenses, Net

R&D expenses, net for the year ended December 31, 2010 amounted to NIS 3,194 thousand. Total R&D expenses, net for the year ended December 31, 2009 amounted to NIS 2,116 thousand, compared to NIS 1,617 thousand for the year ended December 31, 2008. In the reported periods, the Company recognized intangible assets with respect to R&D costs which meet the conditions for recognition as intangible assets. In the year ended December 31, 2010, the Company recognized an intangible asset with respect to R&D costs amounting to NIS 4,675 thousand. R&D expenses in the reported periods, which constantly grow over previous periods, reflect continued and accelerated development of technologies to support continued Company business. In the first quarter of 2009 and through publication of this report, the Company adjusts its R&D staffing by recruiting employees based on changes in Company operations, as described in this report, in support of its business plans. The Company believes that in 2011, R&D expenses in the Products segment may account for up to 20% of total expected revenues of the Products segment[1].

Selling and marketing expenses

Selling and marketing expenses for the year ended December 31, 2010 amounted to NIS 11,189 thousand (or 7% of revenues). Selling and marketing expenses for the year ended December 31, 2009 amounted to NIS 9,896 thousand (or 12% of revenues), compared to NIS 12,449 thousand for the year ended December 31, 2008 (or 16% of revenues). Selling and marketing expenses increased moderately in 2010, and the Company believes that this item may grow in future quarters in line with changes in Company operations, in support of its business plans[2].

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[1] Information about expected R&D expenses as percentage of total revenues of the Products segment is forward-looking information. The main data that constitute the basis for this information are the Company's development plans as set forth in Chapter A (section 1.9.12), the actual stages of development as of the report date, and the need for continued material investments in R&D expenses, in order to implement the Company's plans, including staff recruitment. The main factors likely to prevent this forecast from materializing are changes in the Company's development plans arising from reasons beyond its control (such as market needs and consumer preferences, competitors' developments, prices of raw materials and services required by the Company), lack of budget to finance any expenses required for continued development in general or to the extent required by the Company, and possible technological difficulties in connection with the completion of the development stages under these plans.

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

General and administrative expenses

General & administrative expenses for the year ended December 31, 2010 amounted to NIS 7,981 thousand (or 5.2% of revenues).
General & administrative expenses for the year ended December 31, 2009 amounted to NIS 6,613 thousand (or 8% of revenues), compared to NIS 5,101 thousand for the year ended December 31, 2008 (or 6% of revenues). The changes in this item are primarily due to the effect of current expenses for professional consulting and legal services.

Operating income

For the year ended December 31, 2010, the Company recorded an increase in operating income, amounting to NIS 21,989 thousand, compared to NIS 10,171 thousand for the year ended December 31, 2009 and to NIS 6,797 thousand for the year ended December 31, 2008. The change in operating income in the reported periods is primarily due to changes in Company revenues, as set forth above.

Financing revenues and expenses

Net financing expenses for the year ended December 31, 2010 amounted to NIS 11,010 thousand, compared to NIS 1,689 thousand for the year ended December 31, 2009 and to NIS 9,743 thousand for the year ended December 31, 2008. The change in financing expenses in the reported periods is primarily due to recognition of revaluation expenses and exchange rate differentials with respect to embedded derivatives amounting to NIS 7,710 thousand for the year ended December 31, 2010, caused by the weaker EUR vs. the NIS, which was primarily reflected in the first half of 2010, compared to recognition of non-recurring financing revenues from buy-back of debentures (Series 1 and 2) in 2009, recognition of gain from negotiable securities in 2009 (compared to a loss in 2008), and a decrease in 2009 in borrowing cost components of Company debentures, primarily debentures (Series 1) upon partial maturity of said debentures as set forth above.

Net Profit (Loss)

For the year ended December 31, 2010, the Company reports net income amounting to NIS 11 million (or 7% of revenues), compared to NIS 8.5 million (or 10% of revenues) for the year ended December 31, 2009, and compared to net loss of NIS 2.9 million for the year ended December 31, 2008. The Company believes that the net income reported for 2009-2010 is primarily due to increase in Company revenues, offset by net financing expenses as set forth above. The transition to profit in 2009, compared to 2008, is primarily due to increase in Company revenues, offset by a decrease in financing expense component in 2009.

2.2.4.1 Analysis of business results by operating segment

As set forth above, the Company's commercial operations are primarily performed by two business units, the Products Division and the Systems Division. Details of the results of the different segments appear below.

The Products segment

Results of the Products segment for the year ended December 31, 2010 amounted to income of NIS 28,568 thousand, compared to income of NIS 22,329 thousand for the year ended December 31, 2009 and to income of NIS 22,348 thousand for the year ended December 31, 2008. The increase in segment results for the year ended December 31, 2010 is primarily due, so the Company believes, to increase in Company revenues in this segment compared to the corresponding period last year, offset by the impact of decrease in gross margin for the Products segment, due to the weaker EUR vs. NIS. From 2008 to 2009 there was no material change.

The Systems segment

Results of the Systems segment for the year ended December 31, 2010 amounted to income of NIS 7,787 thousand, compared to income of NIS 29 thousand for the year ended December 31, 2009 and to loss of NIS 6,597 thousand for the year ended December 31, 2008. The transition to profit for this segment in 2009 and the increased income in 2010 are primarily due, according to Company assessment, to increase in revenues in this segment in the reported periods, as set forth above, and to improved gross income, net of operating expenses required in support of continued operations of this segment.

2.2.5 Liquidity and financing sources

As of December 31, 2010, 2009 and 2008 the Company had cash, cash-equivalents and negotiable securities amounting to NIS 36,242 thousand, NIS 34,974 thousand and NIS 42,259 thousand, respectively. This date is essentially unchanged from December 31, 2009 to December 31, 2010. The decrease from December 31, 2008 to December 31, 2009 is primarily due to maturity of convertible debentures (Series 1), maturity of debentures (Series 2), early maturity of debentures (Series 2) carried out by the Company in 2009, offset by advance payments received from customers in the Systems segment.
The operating cash flow for the year ended December 31, 2010 amounted to a positive NIS 13,147 thousand. The positive cash flow for said period is primarily due to a positive cash flow from net income for the period, plus non-cash expenses, less negative cash flow from increase in net assets and liabilities (primarily inventory). The operating cash flow for the years ended December 31, 2009 and 2008 amounted to a positive NIS 18,231 thousand and NIS 10,661 thousand, respectively. The increase in positive cash flow in 2009 over the corresponding period last year is primarily due to gain recognized in the

reported period, increase in other accounts payable and offset by increase in inventory of work in progress.
The cash flow used by investment operations for the year ended December 31, 2010 amounted to NIS 6,612 thousand. The negative cash flow in 2010 is primarily due to recognition of investment in R&D assets and investment in fixed assets in this period. The cash flow from investment operations for the years ended December 31, 2009 and 2008 amounted to a positive NIS 5,337 thousand and a negative NIS 369 thousand, respectively. The increase in positive cash flow in 2009 over the corresponding period last year is primarily due to increase in realized negotiable securities and decrease in investment in R&D assets.

The cash flow used by financing operations for the year ended December 31, 2010 amounted to NIS 5,778 thousand. The negative cash flow is primarily due to maturity of debentures (Series 1 and 2) as set forth above, and to buy-back of Company shares offset by long-term bank loans received as set forth above. The cash flow from financing operations for the years ended December 31, 2009 and 2008 amounted to a negative NIS 21,311 thousand and NIS 11,717 thousand, respectively. The increase in negative cash flow in 2009 over the corresponding period last year is due to maturity and to early maturity of debentures (Series 2).
As of December 31, 2010, the Company had credit facilities available for current operations amounting to NIS 22.6 million - which were fully utilized. As of December 31, 2009, the Company had credit facilities available for current operations amounting to NIS 18.5 million - of which NIS 18 million were utilized. Utilization of credit facilities as of said dates was primarily for guarantees provided to secure Company obligations in projects carried out by the Systems Division.

2.3 Exposure to market risk and management there of

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

Supervisory means and execution of market risk management policy
In the quarterly meetings, Board members receive reports with regards to exposures and market risk management, if any.

Exposure to exchange rate fluctuations

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

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

Current liability items exposed to exchange rate fluctuations include: current maturities of long-term loans, which are mostly linked to foreign currency, as well as trade payables in foreign currency, primarily EUR and USD, liability components for projects in the Systems segment exposed to the EUR exchange rate as set forth above, and the value of embedded derivatives which reflect exposure of future receipts for projects in the Systems segment exposed to the EUR. Non-current liabilities include, *inter alia*, debt in respect of a financing plan for the acquisition of rights in the Company's facilities at Airport City and long-term bank loans, 15% of which are denominated in USD, and 85% – in EUR.

Most of the Company's operations are conducted in foreign currency, or in NIS linked to foreign currency. In the products segment, most of the revenues are denominated in US dollars or linked to the US dollar exchange rate, with the exception of revenues generated from sales in Europe, which, for the most part, are denominated in Euro. In the Systems segment, most of the Company revenues are from sales denominated in EUR or linked there to, hence the decline in EUR/NIS exchange rate should negatively impact the Company's financing expenses, and thus its income from operations priced in EUR (for management of lower exchange rates, see details of the Company's policy on market risk management below).
The raw materials required for the manufacture of the Company's products mainly include various electronic and mechanical components, and the prices are mostly denominated in foreign currency, mainly USD and EUR.

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

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

Interest risk

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

Company policy with regard to market risk management

It is Company policy to try and reduce, for each contract, the exposure to exchange rate fluctuations by aligning the revenue currency with the primary expense currency, and/or by reducing exposure by means of forward transactions in foreign currency. In the Systems sector, the Company usually links the payment terms (date / currency) from different customers to those of the subcontractors.
Due to the decline in EUR/NIS exchange rate in the reported period and in previous periods, the Company entered into several forward transactions designed to reduce exposure to exchange rate fluctuations.

It is Company policy, with regard to negotiable securities, to reduce exposure to fluctuation in stock exchange prices of negotiable securities and to maintain fixed returns, and therefore keep the free monetary resources, as per Company assessment from time to time, invested.

Risk associated with the global market for electronic components

As set forth in section 1.9.6 above, lead times for components in the electronics sector are growing longer, and this may impact lead times for Company products as well as lead to higher prices of such components and other potential exposures. To manage these exposures, the Company strives to constantly streamline its procurement and inventory management procedures, *inter alia*, by means of accelerated procurement sub-contracting of production (including component procurement) to external suppliers, and empowering Company entities involved with procurement and operations.
Beyond the activities set forth above, the management of market risk and use of hedging during the reported year are presented quarterly to the Board of Directors as part of discussions of periodic reports.

Forecast cash flow

The Company Board of Directors has determined, after reviewing the four warning signs set forth in Regulation 10(b)(14) of Securities Regulations (Periodic and immediate reports), 1970 with regard to disclosure of expected cash flow for financing repayment of corporate obligations, that the Company is not experiencing liquidity hardship, and that it is capable of meeting its obligations, including full redemption of liabilities in respect of issuance of debentures (Series 2). The Board of Directors conducts such review each quarter, along with approval of the quarterly financial statements issued by the Company.

2.4 **Linkage basis and sensitivity analysis reports**

Consolidated linkage basis as of December 31, 2010

	As of December 31, 2010					
	Israeli Currency		Foreign Currency			
	Non-linked	Linked to CPI	In Euro	In USD	Non-monetary balances	Total
	NIS in Thousand					
Assets						
Cash	3,829	-	6,115	7,512	-	17,456
Negotiable securities	7,629	10,405	-	752	-	18,786
Accounts receivable	5,582	-	5,315	3,322	-	14,219
Embedded derivatives	-	-	-	-	-	-
Other accounts receivable	863	-	-	408	-	1,271
Inventory	-	-	-	-	29,898	29,898
Inventory of work in progress	-	-	-	-	7,461	7,461
Long-term deposits - operating leases	-	-	-	-	404	404
Fixed assets	-	-	-	-	21,819	21,819
Other assets	-	-	-	-	15,717	15,717
Total assets	17,903	10,405	11,430	11,994	75,299	127,031
Liabilities						
Short-term borrowing and current maturities of long-term borrowing	-	85	3,730	387	-	4,202
Current maturities of debentures	-	6,032	-		-	6,032
Trade payables	14,010	-	6,328	5,417	-	25,755
Embedded derivatives	-	-	3,951	-	-	3,951
Other accounts payable	7,779	-	15,368	501	-	23,648
Long-term loans from banks and others	-	296	11,907	2,323	-	14,526
Straight debentures	-	11,175	-	-	-	11,175
Liabilities with respect to employee benefits, net	-	-	-	-	1,583	1,583
Total liabilities	21,789	17,588	41,284	8,628	1,583	90,872
Net assets (liabilities)	**(3,886)**	**(7,183)**	**(29,854)**	**3,366**	**73,716**	**36,159**

Consolidated linkage basis as of December 31, 2009

	As of December 31, 2009						
	Israeli Currency		Foreign Currency				
	Non-linked	Linked to CPI	In Euro	In USD	In other currencies	Non-monetary balances	Total
	NIS in Thousand						
Assets							
Cash and cash equivalents	2,541	-	7,499	6,788	-	-	16,828
Negotiable securities	5,792	11,280	-	1,047	-	-	18,119
Accounts receivable	3,492	-	6,222	3,670	-	-	13,384
Other accounts receivable	425	-	-	36	-	82	543
Embedded derivatives	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	11,953	11,953
Work-in-progress inventory	-	-	-	-	-	7,835	7,835
Long-term deposits	-	-	-	-	-	159	159
Fixed assets, net	-	-	-	-	-	21,849	21,849
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 debentures	-	5,897	-	8,409	-	-	14,306
Trade payables	9,082	-	165	1,508	-	-	10,755
Option warrants	-	100	-	-	-	-	100
Embedded derivatives	-	-	1,501	-	-	-	1,501
Other accounts payable	8,341	-	-	185	-	16,225	24,751
Long-term loans	-	383	3,515	2,882	-	-	6,780
Convertible debentures	-	-	-	-	-	-	-
Debentures	-	16,226	-	-	-	-	16,226
Liabilities with respect to employee benefits, net	-	-	-	-	-	937	937
Total liabilities	17,423	22,678	5,683	13,396	-	17,162	76,342
Balance (Net)	(5,173)	(11,398)	8,038	(1,855)	0	39,453	29,065

Sensitivity analysis of financial instruments as of December 31, 2010

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

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

	Profit (loss) due to change, NIS in thousands		NIS in thousands	Profit (loss) due to change, NIS in thousands	
	10%+ NIS 3.90 = USD 1	5%+ NIS 3.73 = USD 1	Fair Value NIS 3.549 = USD 1	-5% NIS 3.37 = USD 1	-10% NIS 3.19 = USD 1
Cash and cash equivalents	751	376	7,512	(376)	(751)
Negotiable securities	75	38	752	(38)	(75)
Accounts receivable	332	166	3,322	(166)	(332)
Other accounts receivable	41	20	408	(20)	(41)
Short-term credit and current maturities of non-current liabilities	(39)	(19)	(387)	19	39
Trade payables	(542)	(271)	(5,417)	271	542
Other accounts payable	(50)	(25)	(501)	25	50
Long-term loans	(232)	(116)	(2,323)	116	232
Total	336	169	3,366	(169)	(336)

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

	Profit (loss) due to change, NIS in thousand		NIS in thousands	Profit (loss) due to change, NIS in thousand	
	10%+ NIS 5.21 = €1	5%+ NIS 4.97 = €1	Fair Value NIS 4.7379 = €1	-5% NIS 4.50 = €1	-10% NIS 4.26 = €1
Cash and cash equivalents	612	306	6,115	(306)	(612)
Accounts receivable	532	266	5,315	(266)	(532)
Short term credit and current maturities of long-term liabilities	(373)	(187)	(3,730)	187	373
Trade payables	(633)	(316)	(6,328)	316	633
Other accounts payable	(1,537)	(768)	(15,368)	768	1,537
Long-term loans	(1,191)	(595)	(11,907)	595	1,191
Total	(2,590)	(1,294)	(25,903)	1,294	2,590

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

	Profit (loss) due to change, NIS in thousand		NIS in thousands	Profit (loss) due to change, NIS in thousand	
	10%+ 232.84 points	5%+ 222.25 points	Fair Value 211.67 points	5%- 201.09 points	10%- 190.50 points
Negotiable securities	1,041	520	10,405	(520)	(1,041)
Short term credit and current maturities of long-term liabilities	(612)	(306)	(6,117)	306	612
Long-term loans	(30)	(15)	(296)	15	30
Debentures (***)	(1,118)	(559)	(11,175)	559	1,118
Total	(719)	(360)	(7,183)	360	719

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

4) Table listing change in fair value of derivative financial instruments sensitive to change in underlying asset denominated in EUR

	Profit (loss) due to change, NIS in thousands		NIS in thousands	Profit (loss) due to change, NIS in thousands	
	10%+	5%+	Fair Value	-5%	-10%
Liabilities with respect to embedded derivatives	2,827	1,416	(3,951)	(1,406)	(2,817)
Total	2,827	1,416	(3,951)	(1,406)	(2,817)

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

	Profit (loss) due to change, NIS in thousands		NIS in thousands	Profit (loss) due to change, NIS in thousands	
	10%+	5%+	Fair Value	-5%	-10%
Local - Government	769	384	7,688	(384)	(769)
Local - Corporate	1,110	555	11,098	(555)	(1,110)
Total	1,879	939	18,786	(939)	(1,879)

2.5 **<u>Summary report of liabilities by maturity (Reg. 9d)</u>**

Below is a summary of Company liabilities by maturity as of December 31, 2010:

a. Debentures issued to the public by the reporting entity and are held by the public, except for such debentures held by the parent company of the reporting entity, the controlling shareholder there of, companies controlled there by or companies controlled by the reporting entity - based on separate financial statements of the corporation (solo reports) (NIS in thousands):

	Principal payments					
Period	**NIS, CPI-linked**	**NIS, non-linked**	**Euro**	**USD**	**Other**	**Interest payments, gross (excluding tax deductions)**
Year 1	6,032	-	-	-	-	1,104
Year 2	6,032	-	-	-	-	736
Year 3	6,032	-	-	-	-	368
Year 4	-	-	-	-	-	-
Year 5 and later	-	-	-	-	-	-
Total	18,096	-	-	-	-	2,208

b. Privately-placed debentures and non-bank credit, except for debentures or credit issued by the parent company of the reporting entity, the controlling shareholder there of, companies controlled there by or companies controlled by the reporting entity - based on separate financial statements of the corporation (solo reports) (NIS in thousands):

	Principal payments					
Period	**NIS, CPI-linked**	**NIS, non-linked**	**Euro**	**USD**	**Other**	**Interest payments, gross (excluding tax deductions)**
Year 1	85	-	-	-	-	34
Year 2	94	-	-	-	-	25
Year 3	104	-	-	-	-	15
Year 4	92	-	-	-	-	5
Year 5 and later	6	-	-	-	-	-
Total	381	-	-	-	-	79

c. Credit from banks in Israel - based on separate financial statements of the corporation (solo reports) (NIS in thousands):

	Principal payments					
Period	**NIS, CPI-linked**	**NIS, non-linked**	**Euro**	**USD**	**Other**	**Interest payments, gross (excluding tax deductions)**
Year 1	-	-	3,730	387	-	431
Year 2	-	-	3,730	387	-	324
Year 3	-	-	3,730	387	-	217
Year 4	-	-	2,473	387	-	119
Year 5 and later	-	-	1,975	1,161	-	112
Total	-	-	15,638	2,709	-	1,203

d. Summary table for tables a-c, total bank credit, non-bank credit and debentures - based on separate financial statements of the corporation (solo reports) (NIS in thousands):

	Principal payments					
Period	**NIS, CPI-linked**	**NIS, non-linked**	**Euro**	**USD**	**Other**	**Interest payments, gross (excluding tax deductions)**
Year 1	6,117	-	3,730	387	-	1,569
Year 2	6,126	-	3,730	387	-	1,085
Year 3	6,136	-	3,730	387	-	600
Year 4	92	-	2,473	387	-	124
Year 5 and later	6	-	1,975	1,161	-	112
Total	18,477	-	15,638	2,709	-	3,490

e. Off-balance sheet credit exposure of all consolidated companies, except from companies which are reporting corporations and except for data for the reporting entity entered in table f. above (NIS in thousands):

	Principal payments					
Period	**NIS, CPI-linked**	**NIS, non-linked**	**Euro**	**USD**	**Other**	**Interest payments, gross (excluding tax deductions)**
Year 1	-	-	-	-	-	-
Year 2	-	-	-	-	-	-
Year 3	-	-	-	-	-	-
Year 4	-	-	-	-	-	-
Year 5 and later	-	-	-	-	-	-
Total	-	-	-	-	-	-

Corporate governance aspects

2.6 Details of Company's internal auditor

(a) The Company's internal auditor is CPA EYAL HOROVITZ (jurist) who has held this position since June 2000. His appointment was approved at the meetings of the Audit Committee and Board of Directors on June 18, 2000. To the best of the Company's knowledge, CPA HOROVITZ complies with provisions of Section 146(b) of the Companies Ordinance and provisions of Section 8 of the Internal Audit Act, 1992 (hereinafter: "**the Internal Audit Act**"). The credentials that qualify CPA Horowitz for his position as the Company's internal auditor are his education as a CPA and jurist and his involvement in the audit as a CPA and an internal auditor of public companies since 1991. The internal auditor was appointed after the Audit Committee and the Board of Directors have reviewed his experience and track record in internal auditing of other public companies considering, among others, the type and size of the company as well as the scope and complexity of its operations.
The Company's internal auditor has no business relations or other affiliations with the Company or its controlling shareholder, nor – to the best of the Company's knowledge - to affiliated entities.

(b) CPA HOROVITZ is not an employee of the Company and provides internal auditing services to the Company as an external entity via **Backer Tilly Israel**, of 11 MENACHEM BEGIN Street, RAMAT GAN (Company ID 557383031) which has an internal auditing department and whose employees have skills in various disciplines.

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

(d) The annual and multi-annual audit plan and considerations in its determination:
Major considerations in determining the current and multi-annual audit plan for the Company are: (1) proposals of the internal auditor for periodic and annual working plans; (2) proposals of members of the Audit Committee and the Board of Directors of the Company, based on, among other factors, the proposals of the internal auditor, the subjects of the internal audit in past years, the recommendations of the Company's legal advisor and issues that have been discussed at regular meetings of the Audit Committee and the Board of Directors of the Company; and (3) the size of the Company, its organizational structure and the nature and scope of its business activities. The Audit Committee and Board of Directors discuss and approve the annual plan and the issues to be reviewed by the internal auditor, and those issues are reviewed by the internal auditor as part of his annual work. The internal auditor is authorized to exercise his discretion as to

whether to deviate from the original plan in order to review data he randomly found during the execution of the annual work plan. Should the internal auditor decide to conduct a comprehensive review of a subject or area not included in the list of issues approved by the Audit Committee for the annual work plan, the auditor will recommend that the Audit Committee's Chairman amend the plan, and the latter would raise the issue for discussion and approval during Audit Committee meetings.

(e) From time to time, and as needed, the audit plan also addresses overseas operations conducted by the 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 6.21.2 above) - including monitoring the implementation of the internal auditor's recommendations on these issues. 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 Building Management and Maintenance (2003) Ltd. - a wholly-owned subsidiary of the Company (for further details see section 1.21.1 above).

(f) The extent of services of the internal auditor and the staff of employees reporting to him in the matter of internal audit for the Company for 2008, 2009 and the first nine months of 2010 ranged from 85-175 hours each year. The Board of Directors believes that this scope is in line with the extent of activity reviewed by the auditor. The auditor is authorized to shift hours from one subject to another, and since his work is continuous, the auditor can shift hours from one year to the next in order to allow for an in-depth and extensive coverage of the reviewed subjects at his discretion. Furthermore, the extent of employment of the internal auditor is determined each year together with the approval of the work plan, while taking into consideration the scope of the work plan for the relevant year, its complexity and the sensitivity of the subjects reviewed during that year.

Hours	2009	2010
Hours spent on internal audit of the Company and held companies, regarding their operations in Israel.	105	75
Hours spent on internal audit of the Company and held companies, regarding their operations overseas.	0	0

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

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

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

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

Topic	2009 Report	2010 Report
Date of submission of internal auditor's report	November 20, 2009	December 16, 2010
Date of discussion by Audit Committee	November 26, 2009	December 28, 2010
Date of discussion by Board of Directors	November 26, 2009	December 28, 2010

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

(k) The internal auditor's fee for services rendered in 2010 amounted to NIS 15 thousand. The internal auditor is paid an hourly rate of NIS 200. In the Board of Directors' opinion, the compensation of the internal auditor does not influence his professional discretion considering, among others, the Board of Directors' impression of the manner in which he performs the work of internal auditor at the Company, the level of detail, accuracy and diligence of the audit findings submitted by him to date, as well as the amount of his overall income relative to his wages as the Company's internal auditor.

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

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

2.9 Disclosure with regard to compensation of auditing CPA

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

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

CPA	Company to which service was rendered	Type of Service	2010 NIS in thousands	2010 Work hours	2009 NIS in thousands	2009 Work hours
AMIT HALFON, CPA, RAMAT GAN, Israel	UNITRONICS (1989) (R"G) Ltd.	Audit services, audit-related services and tax services	215	1,008	215	1,053
		Consulting services	69	317	0	0
Clarke, Snow & Riley LLP Quincy, MA, USA	UNITRONICS Inc.	Audit services, audit-related services and tax services	150	256	160	189

Required disclosures with regard to financial reporting

2.10 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.

(a) Pension benefits and other post-employment benefits

Liabilities in respect of post-employment defined benefit plans are determined by using actuarial valuation techniques. Calculation of the liability involves setting assumption with regard to, inter alia, discount rates, expected rate of return on assets, rate of wage increase and employee turnaround rates. These estimates are subject to material uncertainty, because these are long-term plans.

(b) Development costs

Development costs are capitalized as per the accounting policy set forth in Notes to the financial statements. To determine the amounts to be capitalized, management estimates the expected cash flows from the asset and the expected beneficial period.

(c) Embedded derivatives

The value of embedded derivatives with respect to transactions expected to yield a future cash flow in EUR, which is not the Company's functional currency, is determined using economic valuation techniques. Calculation of the value of embedded derivatives involves making assumptions, *inter alia*, with regard to future exchange rates, discount rates and cash flow timing. There is material uncertainty with regard to these estimates, due to cash flows spanning extended periods and to exchange rate volatility.

<u>Specific disclosure to debenture holders</u>

2.11 <u>Corporate debentures (Reg. 10(b)(13))</u>

(1)	Security	Debenture (Series 2)
A	Issue date	August 2006
B	Total par value upon issuance	34,000,000
C	Par value as of the report date	16,140,000
D	Par value in accordance with linkage terms – as of the report date	18,096,000
E	Accumulated interest as of the report date	384,000
F	Liability carrying amount as of the report date	17,207,000
G	Market value	19,208,000
H	Interest type and description	6.1% p.a.
I	Payment dates of principal balance	Remaining three equal annual installments starting on August 25, 2011
J	Interest payment dates	On each 25th day of February and August of the years 2011-2013
K	Details of principal and interest linkage	Principal and interest linked to the Consumer Price Index, base rate of 188.1 or higher (CPI for July, 2006)
L	Are debentures convertible?	Not convertible
M	Is corporate entitled to early redemption?	Not entitled
N	Is payment of obligation guaranteed in deed of trust?	NO
O	Is this liability material for the Company?	YES
(2)	Trustee for debenture series with trust company; contact information of trustee	Hermetic Trusteeship (1975) Ltd., DAN AVNON and/or MERAV OFER-OREN, {0>רח' הירקון 113, תל אביב 63573, טלפון:<}90{>113 HA-YARKON Street, TEL AVIV 63573 Tel.<0}03-5274867 Fax: 03-5271451 Email: hermetic@hermetic.co.il

(1)	Security	Debentures (Series 3 through 8 and Series 8 through 12)
A	Issue date	Yet to be issued
B	Total par value upon issuance	
C	Par value as of the report date	
D	Par value in accordance with linkage terms – as of the report date	
E	Accumulated interest as of the report date	
F	Liability carrying amount as of the report date	
G	Market value	
H	Interest type and description	
I	Payment dates of principal balance	
J	Interest payment dates	
K	Details of principal and interest linkage	
L	Are debentures convertible?	
M	Is corporate entitled to early redemption?	
N	Is payment of obligation guaranteed in deed of trust?	
O	Is this liability material for the Company?	Not applicable (yet to be issued)
(2)	Trustee for debenture series with trust company; contact information of trustee	REZNICK, PAZ, NEVO Trustees Ltd. 14 YAD HARUTZIM Street, TEL AVIV 67778 Telephone: 03-6389200 Fax:03-6393316 Email: trust@rpn.co.il

(5+6) As of the date of this report, the Company was, to the best of its knowledge, in compliance with all terms and conditions in accordance with the Deed of Trust for debentures (Series 2); the Company was not in breach of any obligation or condition which are not of a technical nature set forth in the Deed of Trust , and there was no cause for demanding immediate redemption of the debentures.

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

2.12 Independent Board members

The Company bylaws do not incorporate provisions of the Corporate Act with regard to the number of independent Board members. The Board of Directors has discussed this issue and determined that in view of provisions of Company bylaws which set a limit of 6 Board members on the Company Board of Directors, and since two of them are independent Board members, the Company in actual fact has two independent

Board members, hence the Board of Directors did not see fit to amend the Company bylaws.
The Company is currently served by two independent Board members: Mr. MOSHE BARAZ and Mr. YOEL SELA – both having accounting and financial skills.

2.13 Remuneration of senior corporate officers

The Company sees considerable importance in the significant, continued contribution of the senior officers listed in the table in section 4.11 of this report, and believes that a direct link exists between their remuneration and Company success. The Company sees these officers as an important component of its operations.

The Company Board of Directors at its meeting on March 8, 2011 for each officer individually, discussed the contribution of each officer during the reported period, to determine if the remuneration paid to said officer is fair and reasonable.

In conjunction with this review, the Board of Directors reviewed individually the employment terms of these officers, based on the following criteria:

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

As for Mr. HAIM SHANI and Ms. BAREKET SHANI, the Board of Directors has determined that the Company is materially dependent on their continued service. For further details of the employment contracts of Mr. and Ms. SHANI, and of the aforementioned dependence, see section 4.7.2.

As for Mr. AMIR ANCHEL, the Board of Directors has determined that in view of his proven experience and familiarity with the Company, his employment terms are fair and reasonable. For further details of Mr. ANCHEL's employment contract, see section 4.7.4 below.

As for Mr. YAIR ITZKOVICH, the Board of Directors has determined that in view of his extensive experience in finance management and long-standing familiarity with Company operations, his employment terms are fair and reasonable. For further details of Mr. ITZKOVICH's employment contract, see section 4.7.5 below.

As for Mr. EYAL SABAN, the Board of Directors has determined that in view of the mix of his technology and marketing skills, which are of importance to Company management, his employment terms are fair and reasonable. For further details of Mr. SABAN's employment contract, see section 4.7.6 below.

For further details of senior officers, including their education and experience, see section 4.12 below.

After reviewing the aforementioned criteria and conditions, as well as specific circumstances of each officer as set forth above, the Board of Directors has resolved, for each officer individually, that remuneration paid to each one reflects fair, reasonable and appropriate compensation for their critical services, and are in line with Company operations and needs.

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

2.14.1 Preparation of financial statements

The Company's financial statements are prepared by the Company's CFO. The statements are reviewed and audited by the Company's auditor, who is given complete access to all the data and information in the Company, including meetings with Company employees and directors, as required by him. After review / audit by the Company Auditor, the financial statements are submitted to members of the Financial Statement Review Committee.

2.14.2 Financial Statement Review Committee

As the Corporate Regulations (Directives and conditions for approval process of financial statements), 2010 became effective, the Audit Committee was appointed by the Company Board of Directors (at its meeting on November 11, 2010) to also serve as the Financial Statement Review Committee ("the **committee**"), with composition and meaning as per said regulations, with respect to financial statements as of December 31, 2010 or later. As of the report date, the following Board members serve on the committee:

Name	ZVI LIVNE, CPA	JOEL SELA, CPA	MOSHE BARAZ, CPA
Is an independent Board member or external Board member?	No	Independent Board member	Independent Board member
Is Chairman of the Financial Statement Review Committee?	No	No	YES
Has financial and accounting expertise?	YES	YES	YES
Has provided a statement prior to being appointed?	YES	YES	YES

* For details of the education and experience of members of the Financial Statement Review Committee, see section 4.11 below.

In conjunction with approval of the financial statements as of December 31, 2010, the committee held a meeting on March 6 , 2011. At this meeting, the committee discussed effectiveness of internal control over financial reporting and disclosure by the Company, conducted by the reporting supervisor, the supervision and control supervisor, and supervised by the steering committee, which serves as the supreme control entity over full compliance with reporting requirements, pursuant to internal procedures adopted by the Board of Directors on February 2, 2011 with regard to periodic and immediate reports. A comprehensive discussion of principles and material issues was conducted to formulate recommendations by the committee to the Board of Directors, for discussion and approval of the financial statements; subsequently, the committee confirmed its recommendations.

The committee meeting dated March 6 _, 2011 was attended by the following invitees: Committee members (ZVI LIVNE, CPA; JOEL SELA, CPA; and MOSHE BARAZ, CPA); Mr. YAIR ITZKOVICH, CFO; Mr. EYAL SABAN, VP; Mr. NIR WEISSBERGER, Company Attorney; Mr. HAIM HALFON, Company Auditor; and Mr. MIGUEL ELHANATI, Company Internal Auditor was invited.

The committee discussed and formulated its recommendations for the Board of Directors with regard to the following: Assessments and estimates made with regard to financial statements; internal controls related to the financial reporting process; completeness and appropriateness of disclosure on the financial statements; accounting policy adopted and accounting treatment applied to material issues; valuations including their underlying assumptions and estimates. The draft financial statements and committee recommendations were submitted to the Board of Directors for review two business days prior to the Board meeting to discuss the financial statements, which the Board of Directors considers is a reasonable time to provide the recommendations to the Board of Directors.

2.14.3 Company Board of Directors

The Company views its Board of Directors as the entity in charge of the ultimate control in the matter of the Company's financial statements. The members of the Board of Directors and their respective duties in the Company are:

1. Mr. HAIM SHANI – Chairman of the Board of Directors and CEO of the Company, and a Board member having professional qualifications.
2. Ms. BAREKET SHANI – A Board member having professional qualifications, Vice President and Head of Human Resources, member of the Credit and Investment Committee and the Securities Committee of the Company's Board of Directors.
3. Mr. ZVI LIVNE, CPA - Board member with accounting skills, member of the Credit and Investment Committee, member of the Audit Committee, and a member of the Financial Statement Review Committee.
4. Mr. JOEL SELA, CPA - external, independent Board member, having accounting skills, member of the Audit Committee, member of the Financial Statement Review Committee, member of the Credit and Investment Committee of the Company Board of Directors.

5. Mr. MOSHE BARAZ, CPA - external, independent Board member, having accounting skills, member of the Audit Committee, Chairman and member of the Financial Statement Review Committee and a member of the Securities Committee of the Company Board of Directors.

After Board members reviewed the financial statements, the Board of Directors held a meeting to present and discuss these financial statements. At its meeting on March 8, 2011, Company management reviewed the main data of the financial statements. The meeting was attended by the Company's Independent Auditor who answered questions addressed to him by the Board of Directors (as did the Company CEO and CFO). At the end of the discussion, the Board of Directors voted and approved the financial statements.

2.15 Share buy-back

For details of adoption of buy-back program of Company shares, see sections 1.4.1 and 2.2.2 above and section 4.16 below.

____________________________   ____________________________

{0>חיים שני, מנכ"ל ויו"ר הדירקטוריון<}100{>HAIM SHANI,
ZVI LIVNE,
CEO & Chairman of the Board of Directors<0}   Board Member<0}

March 8, 2011   March 8, 2011

UNITRONICS (1989) (R"G) LTD.

Financial Statements
December 31, 2010

Unitronics (1989) (R"G) Ltd.

Financial Statements

December 31, 2010

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

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

Independent Auditors' Report
To the shareholders of Unitronics (1989) (R"G) Ltd.
About the components of internal control over financial reporting audit in accordance with section 9B(c) to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited components of internal control over financial reporting of Unitronics (1989) (R"G) Ltd. and its subsidiaries (hereinafter the "Group"), as at December 31, 2010. These components of internal control were set as explained in the next paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of components of internal control over financial reporting included in the accompanying periodic report for the above date. Our responsibility is to express an opinion on the components of internal control over financial reporting based on our audit.

Components of internal control over financial reporting were audited by us according to Audit Standard no. 104 of the Institute of Certified Public Accountants in Israel "audit of the internal control components over financial reporting" (hereinafter the "Audit Standard 104"). These components are: (1) entity level controls, including controls on the preparation process and closing of the financial reporting and general controls of information systems, (2) controls on the process of revenue - revenue recognition from projects (3) controls on the process of development costs - the establishment of assets, discounting and impairment (all of these together are called the "audited control elements").

We conducted our audits in accordance with Audit Standard 104. This standard requires that we plan and perform the audit to identify the audited control elements and to obtain reasonable assurance whether these control elements have been maintained effectively in all material respects. The audit includes obtaining an understanding of internal control over financial reporting, identifying the audited control elements, assessing the risk that a material weakness exists in the audited control elements, as well as review and assessment of effective planning and maintaining of these audited control elements based on the estimated risk. Our audit, for those audited control elements, also included performing such other procedures as we considered necessary under the circumstances. Our audit referred only to the audited control elements, unlike internal control of all essential processes over financial reporting, and therefore our opinion refers only to the audited control components. In addition, our audit did not take into account the mutual influences between the audited control elements and those who are not audited, and therefore our opinion do not take into account such possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Because of its inherent limitations, internal control over financial reporting in general, and elements from it in particular, may not prevent or detect a misstatement. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the company effectively maintained, in all material respects, the audited control elements as at December 31, 2010.

We also audited, in accordance with generally accepted auditing standards, the company's financial statements as at December 31, 2010 and 2009 and each of the three years the last of which ended December 31, 2010, and our report, from March 8, 2011 included unqualified opinion on these financial statements.

Amit, Halfon
Certified Public Accountants (Israel)

Ramat-Gan
March 8, 2011

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, 2010 and 2009, 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, 2010. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of a subsidiary whose assets constitute 5% and 7% of the total consolidated assets as at December 31, 2010 and 2009, respectively, and whose revenues constitute 13%, 18% and 19% of the total consolidated revenues for each of the three years the last of which ended December 31, 2010. 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, 2010 and 2009, 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, 2010, in conformity with International Financial Reporting Standards (IFRS) and any disclosures under Israeli Securities Regulations (Annual Financial Statements), 2010.

We have audited also, in accordance with standard no. 104 of the Institute of Certified Public Accountants in Israel "audit of the internal control components over financial reporting", internal control components over financial reporting of the company as at December 31, 2010, and our report from March 8, 2011 included unqualified opinion on the effectively existence of these components.

Amit, Halfon
Certified Public Accountants (Israel)

Ramat-Gan
March 8, 2011

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

	Note	December 31, 2010	December 31, 2010	December 31, 2009
			(in thousands)	
		Convenience translation into EURO, (unaudited) (1)	NIS	
Current assets				
Cash and cash equivalents	3	3,684	17,456	16,828
Marketable securities	4	3,965	18,786	18,119
Accounts receivable -				
Trade	5	3,001	14,219	13,384
Other		268	1,271	543
Inventory	6	6,311	29,898	11,953
Inventory - work in progress	7	1,575	7,461	7,835
		18,804	89,091	68,662
Non-current assets				
Long-term deposits		85	404	159
Property and equipment, net	8	4,605	21,819	21,849
Intangible assets, net	9	3,317	15,717	14,737
		8,007	37,940	36,745
		26,811	**127,031**	**105,407**

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

Approved: March 8, 2011

(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, 2010	December 31, 2010	December 31, 2009
			(in thousands)	
		Convenience translation into EURO, (unaudited) (1)	NIS	
Current liabilities				
Current maturities of non-current loans	10A	887	4,202	986
Current maturities of bonds and convertible bonds	10B	1,273	6,032	14,306
Accounts payable -				
Trade	11	5,436	25,755	10,755
Other	12	4,991	23,648	24,751
Warrants		-	-	100
Embedded derivatives	27E	834	3,951	1,501
		13,421	63,588	52,399
Non current Liabilities				
Loans from the banks and others	13	3,066	14,526	6,780
Bonds	14	2,359	11,175	16,226
Liabilities for benefits to employees, net	15	334	1,583	937
		5,759	27,284	23,943
Contingent liabilities, mortgages and guarantees	16			
Shareholders' equity	17			
Share capital		74	352	352
Share premium		10,677	50,588	50,576
Capital reserve from translation of foreign operations		(248)	(1,176)	(743)
Company shares held by the company		(1,317)	(6,239)	(3,150)
Accumulated loss		(1,555)	(7,366)	(17,970)
		7,631	36,159	29,065
		26,811	**127,031**	**105,407**

(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,		
		2010	2010	2009	2008
			(in thousands)		
	Note	Convenience translation into EURO, (unaudited) (1)	NIS		
Revenues	25	32,288	152,979	84,118	79,720
Cost of revenues	18	22,948	108,725	55,385	53,756
Gross profit		9,340	44,254	28,733	25,964
Development expenses, net	19	674	3,194	2,116	1,617
Selling & marketing expenses	20	2,362	11,189	9,896	12,449
General & administrative expenses	21	1,685	7,981	6,613	5,101
Capital gain		21	99	63	-
Operating profit		4,640	21,989	10,171	6,797
Financing Income	22A	398	1,884	5,380	286
Financing expenses	22B	2,720	12,894	7,069	10,029
Profit (loss) for the year		2,318	10,979	8,482	(2,946)
Profit (loss) per 1 ordinary share NIS 0.02 par value (NIS)	26	0.22	1.059	0.771	(0.267)

(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

	Note	For the year ended December 31, 2010	For the year ended December 31, 2010	2009	2008
			(in thousands)		
		Convenience translation into EURO, (unaudited) (1)	NIS		
Profit (loss) for the year		2,318	10,979	8,482	(2,946)
Other comprehensive income					
Actuarial gain (loss)	15	(79)	(375)	112	(894)
Translation of foreign operation		(91)	(433)	(10)	(149)
Other comprehensive income (loss) for the year		(170)	(808)	102	(1,043)
Total comprehensive income (loss) for the year		2,148	10,171	8,584	(3,989)

(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, 2008	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)	(17,970)	29,065
Purchase of company shares by the company	-	-	-	-	(3,089)	-	(3,089)
Warrants exercise	(*)-	-	12	-	-	-	12
Comprehensive income	-	-	-	(433)	-	10,604	10,171
Balance at December 31, 2010	352	-	50,588	(1,176)	(6,239)	(7,366)	36,159

	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, 2010	74	-	10,674	(157)	(665)	(3,794)	6,132
Purchase of company shares by the company	-	-	-	-	(652)	-	(652)
Warrants exercise	(**)-	-	3	-	-	-	3
Comprehensive income	-	-	-	(91)	-	2,239	2,148
Balance at December 31, 2010	74	-	10,677	(248)	(1,317)	(1,555)	7,631

(*) less than 1,000 NIS
(**)less than 1,000 Euro
(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,		
	2010	2010	2009	2008
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	NIS		
Cash flows from operating activities				
Profit (loss) for the year	2,318	10,979	8,482	(2,946)
Adjustments necessary to show the cash flows from operations (Appendix A)	458	2,168	9,749	13,607
Cash flows provided by operating activities	2,776	13,147	18,231	10,661
Cash flows for investing activities				
Sale of (investment in) marketable securities, net	(3)	(16)	12,298	8,405
Purchase of property and equipment	(339)	(1,608)	(2,364)	(1,191)
Sale of property and equipment	24	115	180	-
Investment in long-term deposits	(55)	(260)	(166)	-
Repayment of long-term deposits	35	167	218	106
Investment in intangible assets	(1,057)	(5,010)	(4,829)	(7,689)
Cash flows provided by (used in) investing activities	(1,395)	(6,612)	5,337	(369)
Cash flows for financing activities				
Receiving long-term loan	3,070	14,552	-	-
Exercise of options	3	11	-	-
Repayment of long-term loans	(573)	(2,713)	(1,076)	(1,010)
Repayment of convertible bonds	(1,815)	(8,600)	(8,600)	(10,629)
Early redemption of bonds	-	-	(5,286)	-
Early redemption of convertible bonds	-	-	(272)	-
Repayment of bonds	(1,254)	(5,939)	(5,858)	-
Purchase of company shares by the company	(652)	(3,089)	(219)	(78)
Cash flows used in financing activities	(1,221)	(5,778)	(21,311)	(11,717)
Translation differences in respect of foreign operations cash balances	(28)	(129)	12	(101)
Change in cash and cash equivalents	132	628	2,269	(1,526)
Cash and cash equivalents at beginning of year	3,552	16,828	14,559	16,085
Cash and cash equivalents at end of year	3,684	17,456	16,828	14,559

(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,		
	2010	2010	2009	2008
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	NIS		
Appendix A - Adjustments necessary to show the cash flows from operations				
Depreciation and amortization	1,344	6,370	6,844	5,890
Loss (profit) from marketable securities, net	(137)	(651)	(2,717)	2,512
Benefit arising from warrants granted	-	-	-	3
Increase (decrease) in liabilities for benefits to Employees, net	57	271	246	(253)
Capital gain	(21)	(99)	(63)	-
Reevaluation of warrants and conversion option of convertible bonds	(21)	(99)	83	(194)
Exchange rate changes of long-term loans and convertible bonds	(84)	(399)	1,649	1,057
Reevaluation of embedded derivatives	517	2,450	1,286	215
Profit from early redemption of bonds	-	-	(1,838)	-
Decrease (increase) in accounts receivable - trade	(212)	(1,003)	(2,106)	2,737
Decrease (increase) in accounts receivable - other	(187)	(887)	(273)	38
Decrease (increase) in inventory	(3,816)	(18,080)	1,364	(426)
Decrease (increase) in inventory - work in progress	79	374	(7,835)	319
Increase (decrease) in accounts payable - trade	3,167	15,001	1,213	(3,093)
Increase (decrease) in accounts payable - other	(228)	(1,080)	11,896	4,802
	458	2,168	9,749	13,607
Appendix B - Additional information				
Cash paid during the year for:				
Interest	436	2,065	2,628	4,173
Taxes on income	23	108	108	108
Cash received during the year for:				
Interest	135	639	835	1,319

(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. The Company also provides design, construction and maintenance services within the framework of projects for the automation, computerization and integration of computerized production and/or logistics systems, mainly automated warehouses and distribution centers as well as automated parking systems.

D. Definitions

The company -	Unitronics (1989) (R"G) Ltd
Consolidated companies -	companies under the company's control (as defined in IAS27) which their financial statements consolidated with the company.
Related parties -	as defined in IAS24.
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, 2010	211.67	4.7379	3.549
December 31, 2009	206.19	5.4417	3.775
December 31, 2008	198.48	5.2973	3.802
Change during the period	%	%	%
December 31, 2010	2.66	(12.93)	(5.99)
December 31, 2009	3.92	2.73	(0.71)
December 31, 2008	3.80	(6.39)	(1.14)

(*) 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, 2010 (EURO 1 = NIS 4.7379).
The translated EURO amounts presented in these financial statements should not be construed as representing amounts receivable or payable in EURO unless otherwise indicated.

Note 2 - Significant Accounting Policies

A. Basis of presentation of the financial statements

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

Preparation of the financial statements

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

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

Also, the financial statements were prepared in accordance with the disclosure requirements of 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.

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:

Note 2 - Significant Accounting Policies (cont'd)

B. Assumptions and estimates (cont'd)

Benefits for severance pay and other benefits after retirement

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

Development costs

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

Embedded derivatives

Value of embedded derivatives, in respect of transactions that its expected future cash flow denominated in Euro, which is not the company's functional currency, is determined using the techniques of economic assessments. Calculation of value of embedded derivatives involves determining assumptions, among other things, about future exchange rates, discount rates and dates of the cash flow. There is significant uncertainty for these assumptions due to the deployment of cash flows over long periods and due to fluctuation in exchange rates. See more information in Note 27(E).

C. Functional currency and foreign currency

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

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

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.

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%)

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)

W. Disclosure of new IFRS implemented in the reporting period

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

In accordance with the amendment to IAS 17 the specific directive regarding the method of classifying the leasing of land as operative or financial leasing has been canceled. Consequently there is no longer a demand to classify the leasing of land as operative leasing in every case that ownership is not expected to be transferred to the lessee at the end of the lease period, but the leasing of land must be examined according to the general directives appearing in IAS 17 which relate to the classification of leasing as operative or financial while considering that land, generally, has an undefined economic lifespan.

The amendment is being implemented as from these financial statements, while implementing the comparative figures retrospectively. In order to implement them retrospectively, the classification of leasing the land was re-examined on the basis of the information which existed at the time of the engagement in the leasing according to the ordinary criteria appearing in IAS 17 for classifying financial or operative leasing. Consequently leasing land from the Israel Lands Administration is financial leasing.

As a result of the first implementation of the Standard the balance of the prepayments for the leasing of land from the Israel Lands Administration was classified as an item of fixed assets as this relates to land on which the Company's offices have been built. Consequently there is an increase in the fixed assets item of NIS 3,001 thousand as at December 31, 2009.

As the payment of lease was made on the date of the engagement, the amendment did not affect the measurement of land but its classification only, therefore there has been no effect on retained earnings as at December 31, 2009 and on comprehensive income (loss) for the periods presented.

2. Amendments, standards and interpretations to the existing standards which came into force and are binding for accounting periods starting January 1, 2010, but the first implementation did not have any significant effect on the Group's financial statements:

a. IFRS 5 (amended) - Non current assets held for sale and discontinued operations
b. IFRS 3 (amended) - Business combinations; and IAS 27 (amended) - separate and consolidated financial statements
c. Amendment to IFRS 8 – "Operating segments"
d. Amendment to IAS 7 – "Statements of cash flows"

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

1. FRS 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.

The first stage establishes a new framework for the classification and measurement of financial assets. On first recognition, all financial instruments will be measured at fair value. During later periods, the classification of financial assets that are debt instruments to amortized cost or to fair value through profit or loss is based on the business model to manage the entity's financial assets and based on the contractual cash flow characteristics from the financial asset. All other debt instruments in later periods are measured at fair value through profit or loss. All financial assets that are capital instruments are measured at fair value through profit or loss or other comprehensive income.

Note 2 - Significant Accounting Policies (cont'd)

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

1. FRS 9 – Financial instruments (cont'd)

In October 2010 was published another part of the IFRS 9 (the "second stage") dealing with financial liabilities. IFRS 9 accounting treatment for most of the issues regarding financial liabilities is not materially different than stated in IAS 39 except for the following main topics:

- Liabilities designated fair value (except obligations to provide loans and financial guarantee contracts shall be directed at fair value through profit or loss) - according to IFRS 9 change in fair value in each period will be separated into two parts - the part attributed to credit risk will be recognized as other comprehensive income and Net change in fair value recognized in profit or loss, unless the separation was created following the lack of acceptance in accounting, then do not make this distinction. Amounts witch will be charged to other comprehensive income will not reclassified to profit or loss.
- IFRS 9 abolished the exception of measuring the cost of derivatives that are liabilities related to an equity instrument that can not be reliably measured at fair value. These derivatives will be measured at fair value.

The starting date of both stages is January 1, 2013. Earlier adoption is possible for both stages of for the first stage. The second stage can not adopted without adopting the first stage. 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.

2. IFRS 7 – Financial instruments: Disclosures

The amendment to IFRS 7 clarifies the disclosure requirements presented in the Standard. According to the amendment, the quantitative and qualitative disclosure is emphasized as well as the nature and level of the risks resulting from financial instruments. Disclosure requirements regarding collateral that the Company holds were reduced and the disclosure requirements regarding credit were amended. The amendment was implemented retrospectively as from the financial statements for periods starting January 1, 2011. Early implementation is possible.
In the Company's opinion, the amendment is not expected to have a significant effect on the disclosure of financial instruments in the financial statements.

3. IAS 34 - Financial Reporting for Interim Periods

According to the amendment to IAS 34, additional disclosure requirements were added in the interim financial statements relating to the circumstances according to which it is reasonable to assume that they will affect the fair value of financial instruments and their classification, the transfer of financial instruments between the various levels in the grading of fair value, changes in the classification of financial assets and changes in contingent liabilities and contingent assets. The amendment will be implemented retrospectively as from the financial statements for periods starting January 1, 2011. Early implementation is possible.
The disclosures required will be included in the Company's financial statements.

4. IAS 1 - Presentation of financial statements

According to the amendment, movement between the opening balances and the closing balances for all components of other comprehensive income can be presented in the statement of changes in shareholders' equity or in the notes to the annual financial statements. The amendment will be implemented retrospectively as from the financial statements for periods starting January 1, 2011. Early implementation is possible.
In the Company's opinion, the amendment is not expected to have a significant effect on the Company's financial statements.

Note 3 - Cash and cash equivalents

	December 31, 2010	December 31, 2010	December 31, 2009
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Israeli currency	808	3,829	2,540
Foreign currency	2,876	13,627	14,288
	3,684	17,456	16,828

Note 4 - Marketable securities

Marketable securities measured at fair value through the statement of operations

	December 31, 2010	December 31, 2010	December 31, 2009
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Israeli Bonds:			
Linked to Israeli CPI	2,196	10,405	11,278
Linked to USD	159	752	1,047
Unlinked	1,610	7,629	5,794
	3,965	18,786	18,119

Note 5 - Accounts receivable - trade

	December 31, 2010	December 31, 2010	December 31, 2009
	Convenience translation into EURO, (unaudited)	(in thousands) NIS	
Related to work in progress in connection with long-term contracts (*):			
Open accounts	681	3,231	1,713
Income receivable	237	1,121	2,674
	918	4,352	4,387
Others:			
Open accounts	2,040	9,664	8,753
Post-dated checks receivable	58	274	301
	2,098	9,938	9,054
	3,016	14,290	13,441
Provision for doubtful debts	(15)	(71)	(57)
	3,001	14,219	13,384
(*) Costs and recognized profits	15,745	74,598	26,133
Less bills of progress in work	14,921	70,692	21,989
	824	3,906	4,144
V.A.T on open accounts	94	446	243
	918	4,352	4,387

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, 2010	10,419	2,001	329	75	12,824
December 31, 2009	6,755	3,443	167	44	10,409

Note 6 - Inventory

	December 31, 2010	December 31, 2010	December 31, 2009
	Convenience translation into EURO, (unaudited)	(in thousands) NIS	
Raw and packaging (*)	2,999	14,211	6,207
Work in process (*)	1,854	8,785	3,399
Finished products	1,458	6,902	2,347
	6,311	29,898	11,953

An impairment in value of inventory recorded to the cost of revenues in the reported year aggregated an amount of NIS 974 thousands (in 2009 – NIS 589 thousands).

Note 6 - Inventory (cont'd)

(*) In September, 2010 the Company entered into an agreement for certain outsourcing manufacturing services (hereinafter - "The agreement") with a subcontractor in Israel. According to the agreement the Company is selling inventories of raw materials to the subcontractor for manufacturing for the company. The sell of inventories is at cost prices, without gross profit. Since the significant benefits and risks for the inventories have not been transferred to the subcontractor, the company did not recognize revenue from the sale of the inventories; in accordance, the inventories sold to the subcontractor included in the company's financial statements as part of the company's inventory and was deducted from the subcontractor's balances. As at December 31, 2010 the inventory includes NIS 9.4 million of this inventories. See also Note 18.

Note 7 - Inventory - work in progress

	December 31, 2010	December 31, 2010	December 31, 2009
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Cost of work performed	15,232	72,170	31,627
Less amounts charged to statements of operations	13,657	64,709	23,792
	1,575	7,461	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, 2009	21,294	-	5,657	805	2,230	29,986
Additions	-	1,083	209	716	356	2,364
Disposals	-	-	(981)	(490)	(215)	(1,686)
Translation differences	-	-	-	-	(5)	(5)
Balance as at December 31, 2009	21,294	1,083	4,885	1,031	2,366	30,659
Additions	350	167	596	-	495	1,608
Disposals	-	-	(774)	(315)	(1)	(1,090)
Translation differences	-	-	-	-	(32)	(32)
Balance as at December 31, 2010	21,644	1,250	4,707	716	2,828	31,145
Accumulated depreciation						
Balance as at January 1, 2009	3,768	-	3,425	518	996	8,707
Depreciation during the year	636	18	697	128	196	1,675
Disposals	-	-	(980)	(373)	(215)	(1,568)
Translation differences	-	-	-	-	(4)	(4)
Balance as at December 31, 2009	4,404	18	3,142	273	973	8,810
Depreciation during the year	536	124	592	151	206	1,609
Disposals	-	-	(774)	(299)	(1)	(1,074)
Translation differences	-	-	-	-	(19)	(19)
Balance as at December 31, 2010	4,940	142	2,960	125	1,159	9,326
Net book value as at December 31, 2010	16,704	1,108	1,747	591	1,669	21,819
Net book value as at December 31, 2009	16,890	1,065	1,743	758	1,393	21,849

(*) 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%).

(**) Including capitalization of borrowing costs and capitalization of lease fees - see Note 2 W (a)

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

	Land and Buildings	Leasehold improvements	Machinery and Equipment	Motor vehicles	Office furniture and Equipment	Total
	Convenience translation into euro					
	(in thousands)					
Cost						
Balance as at January 1, 2010	4,494	229	1,031	218	499	6,471
Additions	74	35	126	-	104	339
Disposals	-	-	(163)	(66)	-	(229)
Translation differences	-	-	-	-	(7)	(7)
Balance as at December 31, 2010	4,568	264	994	152	596	6,574
Accumulated depreciation						
Balance as at January 1, 2010	930	4	663	58	205	1,860
Depreciation during the year	113	26	125	32	43	339
Disposals	-	-	(163)	(63)	-	(226)
Translation differences	-	-	-	-	(4)	(4)
Balance as at December 31, 2010	1,043	30	625	27	244	1,969
Net book value as at December 31, 2010	3,525	234	369	125	352	4,605

Note 9 - Intangible assets, net

	Patents and Licenses	Software	Development costs	Total
	NIS (in thousands)			
Cost				
Balance as at January 1, 2009	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
Additions - internal created	-	-	4,675	4,675
Additions - bought	-	335	-	335
Disposals	-	-	(2,812)	(2,812)
Balance as at December 31, 2010	639	1,707	21,443	23,789
Accumulated amortization				
Balance as at January 1, 2009	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
amortization during the year	60	268	3,702	4,030
Disposals	-	-	(2,812)	(2,812)
Balance as at December 31, 2010	614	1,240	6,218	8,072
Net book value as at December 31, 2010	25	467	15,225	15,717
Net book value as at December 31, 2009	85	400	14,252	14,737

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, 2010	135	290	4,133	4,558
Additions - internal created	-	-	987	987
Additions - bought	-	71	-	71
Disposals	-	-	(594)	(594)
Balance as at December 31, 2010	135	361	4,526	5,022
Accumulated amortization				
Balance as at January 1, 2010	117	205	1,126	1,448
Amortization during the year	13	57	781	851
Disposals	-	-	(594)	(594)
Balance as at December 31, 2010	130	262	1,313	1,705
Net book value as at December 31, 2010	5	99	3,213	3,317

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,		
	2010	2010	2009	2008
	(in thousands)			
	Convenience translation into EURO, (unaudited)	NIS		
Cost of revenues	830	3,931	3,672	2,062
Development expenses, net	9	44	51	65
Selling & marketing expenses	6	29	35	50
General & administrative expenses	5	26	115	146
	850	4,030	3,873	2,323

Note 10 - Current maturities of non current liabilities

	December 31, 2010	December 31, 2010	December 31, 2009
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
A. Current maturities of non current loans:			
Linked to the USD	82	387	412
Linked to the EURO	787	3,730	502
Not linked	18	85	72
	887	4,202	986
B. Current maturities of bond and convertible bonds:			
Linked to the USD (*)	-	-	8,409
Linked to the CPI	1,273	6,032	5,897
	1,273	6,032	14,306

(*) In the reported year the bonds were fully repaid

Note 11 - Accounts payable - trade

Suppliers	4,218	19,984	8,076
Post-dated checks payable	1,218	5,771	2,679
	5,436	25,755	10,755

Note 12 - Accounts payable - other

Employees, payroll and taxes	681	3,227	2,161
Government institutions	136	644	25
Provision for vacation	118	557	289
Accrued expenses	746	3,536	6,051
Prepaid income	68	320	938
Advances from costumers	3,242	15,364	15,287
	4,991	23,648	24,751

Note 13 - Loans from banks and others

A. Consisting of the following:

		Annual Interest Rates %	December 31, 2010	December 31, 2010	December 31, 2009
				(in thousands)	
			Convenience translation into EURO, (unaudited)	NIS	
Long-term loans from banks:					
Linked to the USD	Libor+2.02(*)		572	2,710	3,295
Linked to the EURO	Libor+2.075-1.93(**)		3,300	15,636	4,017
Less current maturities			(869)	(4,117)	(914)
			3,003	14,230	6,398
Long-term loans from others:					
Motor vehicles lassoers -					
Not linked		9.90	80	381	454
Less current maturities			(17)	(85)	(72)
			63	296	382
			3,066	14,526	6,780

(*) As at December 31, 2010 - 2.4504%
(**) As at December 31, 2010 - 2.7513%-3.0972%

B. Aggregate maturities are as follows:

Second year	889	4,211	999
Third year	891	4,221	1,008
Fourth year	623	2,952	1,018
Fifth year	315	1,494	1,013
Sixth year and thereafter	348	1,648	2,742
	3,066	14,526	6,780

C. Mortgages - see note 16B.

Note 14 - Bonds

1. On August, 2006 the company issued a series of bonds (series 2) at the amount of NIS 34 million (in exchange for 94% of their par value) payable in 5 equal payments starting at August 25, 2009.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:

	December 31, 2010	December 31, 2010	December 31, 2009
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Bonds linked to the Israeli CPI	3,819	18,096	23,590
Less discount, net	(188)	(889)	(1,467)
	3,631	17,207	22,123
Less current maturities	(1,272)	(6,032)	(5,897)
	2,359	11,175	16,226

3. Aggregate maturities are as follows:

Current maturities	1,273	6,032	5,897
Second year	1,273	6,032	5,897
Third year	1,273	6,032	5,897
Fourth year	-	-	5,899
	3,819	18,096	23,590

In 2009 the company purchased NIS 300 thousands convertible bonds (series 1) and NIS 7,100 thousands bonds (series 2) at a sum of NIS 5,558 thousands.
As a result of the purchase the company recorded gain from early redemption of bonds at a sum of NIS 1.8 million.

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,		
	2010	2010	2009	2008
		(in thousands)		
	Convenience translation into EURO, (unaudited)		NIS	
Expenses for defined contribution plans	229	1,084	872	935

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	167	791	585	664
Interest on obligation	50	235	364	321
Expected return on plan assets	(41)	(195)	(319)	(319)
	176	831	630	666
Actual return on plan assets	60	284	715	(547)

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,	
	2010	2010	2009
	Convenience translation into EURO, (unaudited)	(in thousands) NIS	
Liabilities	1,424	6,748	6,477
Assets	(1,090)	(5,165)	(5,540)
Net liability	334	1,583	937

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

	2010	2010	2009
	Convenience translation into EURO, (unaudited)	(in thousands) NIS	
Opening defined benefit obligation	1,368	6,477	6,384
Interest cost	50	235	364
Service cost	167	791	585
Liabilities extinguished on settlements	(257)	(1,219)	(1,140)
Actuarial losses, net	98	464	284
Closing defined benefit obligation	1,424	6,748	6,477

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	1,169	5,540	5,581
Expected return	41	195	319
Contributions by employer	49	233	256
Assets distributed on settlements	(188)	(892)	(879)
Actuarial gain, net	19	89	396
Yield transfer of the severance pay component to the pension component	-	-	(133)
Closing fair value of plan assets	1,090	5,165	5,540

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

5. Principal actuarial assumptions for defined benefit plans:

	For the year ended December 31,		
	2010	2009	2008
	Rate (%)		
Discount rate	4.75	4.00	4.20
Expected return on plan assets (*)	2.1-6.7	5.50-6.30	1.80-3.90
Future salary increases	1.87	1.90	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, 2010 amount to NIS 552 thousands (EURO 116 thousands). The liability in respect of royalties to the Government at December 31, 2010 amounts to NIS 160 thousands (EURO 34 thousands) relating to projects that the company's management assumes royalties payments.

B. Mortgages and guarantees

1. In order to secure the company's liabilities to the bank, the company mortgaged with a first fixed charge on the company's contractual rights under lease agreements between the company and the Israeli Lands Administration ("Minhal"). As at December 31, 2010 these loans amount to a total of NIS 5,770 thousands (Euro 1,218 thousands) (as of December 31, 2009 amounted to NIS 6,398 thousands (Euro 1,350 thousands)).
   Furthermore, In order to secure the company's liability in respect of financial leasing, the rights to the leased cars were lined to the leasing companies.

2. As at December 31, 2010, the company gave performance guarantees to customers in the total amount of NIS 9.6 millions (EURO 2 millions).

Note 17 - Share Capital

A. Composition

	Number of shares		
		December 31,	
	December 31, 2010 and 2009	2010	2009
	Authorized	Issued and fully paid	
Ordinary shares of NIS 0.02 par value each	100,000,000	11,676,504	11,678,546

Note 17 - Share Capital (cont'd)

B. Option plan

The Company maintains two share option plans (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 2001 and 2003 Option Plans 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 year. The 2001 and 2003 Option Plans expire in the years, 2011 and 2013 respectively.

C. In April, 2007 the company granted 210,000 options under 2003 plan to a consultant. The vesting dates of 105,000 options ("the first options") are September 1, 2007, 2008 and 2009 in equal settlements. The vesting dates of additional 105,000 options ("the additional options") are September 1, 2008, 2009 and 2010 in equal settlements. The first options can be exercised till August 31, 2011 and the additional options can be exercised till August 31, 2012. The options are exercisable at a price of Euro 1.30. The economic value of the options at the grant day according to B&S model is NIS 5 thousands.
In addition the company granted 498,000 options which were not designated yet under 2003 plan to the company's trustee.

D. In august 2006 the company issued a series of 600 thousands warrants (Series 2), 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.
In April 2010 1,958 warrants (Series 2) were exercised to 1,958 ordinary shares of par value NIS 0.02 for an amount of NIS 11 thousand.
In August 2010 598,042 warrants (Series 2) were expired according to their terms.

E. Since August 2005 the company purchases, from time to time, shares of the company in both Tel Aviv stock exchange and Euronext.
In March 2010 the Board of Directors has approved adoption of a plan to purchase additional ordinary shares of the Company in an amount not to exceed NIS 1.5 million, replaces the company's previous plan in which the balance of its non-exploited expired. This plan was valid until June 30, 2010. In May 2010 the Board of Directors approved the adoption of a plan to purchase additional ordinary shares of the Company in an amount not to exceed NIS 1.5 million, replaces the company's previous plan in which the balance of its non-exploited expired. This program is valid until September 30, 2010. In November 2010 the Board of Directors approved the adoption of a plan to purchase additional ordinary shares of the Company in an amount not to exceed NIS 1.5 million, replaces the company's previous plan in which the balance of its non-exploited expired. This program is valid until March 31, 2011. After the balance sheet date the company continued to purchase shares under the last plan.

As at December 31, 2010, the Company holds 1,530,416 shares comprising 13.1% of the Company's issued share capital purchased for a total amount of NIS 6,239 thousand (as of December 31, 2009, the Company held 753,092 shares which comprised 6.45% of the Company's issued share capital).

F. Managing the Company's capital

The object of the Company in managing shareholders' equity is to maintain the Company's ability to ensure continuity of business and create a return for its shareholders, investors and other interested parties.

The Company operates to achieve a return on capital at the level acceptable in the branch and in the field of operations in the markets in which the Company operates. This return can be subject to changes according to the market factors in the branch and in the Company's business environment. The Company is not subject to any demands regarding minimum capital required or achieving a certain level of return on capital.

Note 18 - Cost of revenues

	For the year ended December 31,	For the year ended December 31,		
	2010	2010	2009	2008
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Materials consumed and (*) subcontractors	19,117	90,574	35,145	34,993
Payroll and related benefits	3,382	16,023	9,335	9,973
Changes in work in process and finished products	(2,098)	(9,941)	1,353	224
Depreciation and amortization	1,032	4,888	4,523	2,960
Management and Maintenance costs	73	347	712	716
Other expenses	1,442	6,834	4,317	4,890
	22,948	108,725	55,385	53,756

(*) According to the agreement from September, 2010 the Company is selling inventories of raw materials to the subcontractor for manufacturing for the company. The sell of inventories is at cost price, without gross profit. Since the significant benefits and risks for the inventories have not been transferred to the subcontractor, the company did not recognize revenue from the sale of the inventories. Materials costs in 2010 were decreased from proceeds from sales of raw materials sold to the subcontractor which amounted to about NIS 15.7 million. See also Note 6.

Note 19 – Development expenses, net

Payroll and related benefits	1,206	5,715	4,479	6,349
Subcontractors	154	730	281	518
Other expenses	301	1,424	1,923	2,183
Less – capitalized expenses	(987)	(4,675)	(4,567)	(7,433)
	674	3,194	2,116	1,617

Note 20 – Selling and marketing expenses

Salaries and related benefits	1,062	5,033	4,194	5,452
Travel and marketing abroad	82	387	452	653
Exhibits, advertising and other expenses	1,218	5,769	5,250	6,344
	2,362	11,189	9,896	12,449

Note 21 – General and administrative expenses

Salaries and related benefits	844	3,998	3,428	2,800
Office rent, maintenance and communications	89	421	410	333
Depreciation and amortization	50	235	304	300
Professional services	592	2,807	2,011	1,216
Bad and doubtful debts	4	19	14	13
Other expenses	106	501	446	439
	1,685	7,981	6,613	5,101

Note 22 – Financing income (expenses)

	For the year ended December 31,	For the year ended December 31,		
	2010	2010	2009	2008
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
A. Financing income				
Profit and interest from marketable securities, net	271	1,283	3,542	-
Profit from hedge transactions, net	39	183	-	-
Erosion of long-term loans from banks	67	319	-	-
Reevaluation of warrants and conversion option of convertible bonds	21	99	-	193
Profit from early redemption	-	-	1,838	-
Others	-	-	-	93
	398	1,884	5,380	286
B. Financing expenses				
Financing cost relating to bonds	566	2,682	4,538	6,789
Loss and interest from marketable securities, net	-	-	-	1,239
Loss on cash and cash equivalents and bank deposits	417	1,976	213	1,032
Financing cost relating to long term debt	-	-	399	132
Reevaluation of warrants	-	-	83	-
Embedded derivatives	1,627	7,710	1,286	215
Others	110	526	550	622
	2,720	12,894	7,069	10,029
C. Classification of finance income (expenses) according to finance instruments				
Financial assets at fair value through the statement of operations	271	1,283	3,542	(1,239)
Financial liabilities measured at reduced cost	(499)	(2,363)	(4,937)	(6,921)
Financial liabilities fair value through the statement of operations	21	99	(83)	193

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,		
	2010	2010	2009	2008
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Salaries and related benefits (*)	338	1,602	1,492	1,485
Bonus interested parties	188	893	689	-
Directors' remuneration (**)	22	103	127	118
Rental expenses and management fees	183	868	615	388
(*) Number of recipients	2	2	2	2
(**) Number of recipients	3	3	3	4

2. Officers Insurance

   The company insured the liability of the directors and executives in accordance with the provision of the law. The policy covers the liability of the directors and executives of the company up to USD 5 million.

3 The annual general meeting of the Company's shareholders (the "**AGM**") has approved the indemnification and exemption of the Company's Office Holders as may be appointed from time to time, and/or those serving in Other Companies (excluding Office Holders which are Controlling Shareholders of the Company) pursuant to the provisions of the Indemnity Letter and the granting of Indemnity Letters to such Office Holders.
In addition, the AGM has approved the indemnification and exemption of Mr. Haim Shani and Mrs. Bareket Shani, the Controlling Shareholder in the Company and his wife.

4. In April 2005 the general meeting of the company's shareholders approved to grant Mr. Haim Shani - an annual bonus at a rate of 7.5% of the Company's profit before taxes.
   in respect of each calendar year beginning on 2005 and as long as he serves as the Company's CEO.

5. 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. In addition, the company controlled by the company's controllers charge the company for management fees on the leased area for a third party.

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

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,		
	2010	2010	2009	2008
	Convenience translation into EURO, (unaudited)	(in thousands) NIS		
Profit (loss) before taxes on income	2,318	10,979	8,482	(2,946)
Tax rate	25%	25%	26%	27%
Theoretical tax	579	2,745	2,205	(795)
Increase in taxes resulting from non-deductible expenses	11	50	61	59
Temporary differences where deferred taxes were not recognized	(590)	(2,795)	(2,266)	736
	-	-	-	-

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. The subsidiary, Unitronics Inc. is taxed under US tax laws and not entitled to benefits pursuant to the Encouragement of Industry (Taxes) Law, 1969. The Federal tax rate applicable to the subsidiary ranges between 15% and 35%; the state tax law applicable to the subsidiary (in the State of Massachusetts) is 8.75%

G. Final tax assessments
The Company has final tax assessments for all years up to 2006 (General Director of Israel Tax authority is authorized to extend the period of limitation for an additional year under certain conditions).

H. Tax loss carry forward
As at December 31, 2010 the company's tax loss carry forward where deferred taxes were not recognized, amounts to approximately NIS 8 million (EURO 1.7 million) and the consolidated loss amount to approximately NIS 14 million (EURO 3 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,		
	2010	2010	2009	2008
	(in thousands)			
	Convenience translation into EURO, (unaudited)	NIS		
Products	16,456	77,965	57,496	64,418
System integration projects	15,745	74,598	26,133	14,597
Other	87	416	489	705
Total revenues	32,288	152,979	84,118	79,720

B. Segment results and adjustment to the profit (loss)

Products	6,029	28,568	22,329	22,348
System integration projects	1,643	7,787	29	(6,597)
Other	15	69	(223)	(11)
Unallocated corporate expenses	(3,047)	(14,435)	(11,964)	(8,943)
Operating profit	4,640	21,989	10,171	6,797
Unallocated corporate financing expenses, net	(2,322)	(11,010)	(1,689)	(9,743)
Profit (loss) for the year	2,318	10,979	8,482	(2,946)

Note 25 - Operative segments (cont'd)

2. Report on operative segments (cont'd)

C. Segment assets

	December 31, 2010	December 31, 2010	December 31, 2009
	Convenience translation into EURO, (unaudited)	(in thousands) NIS	
Products	8,583	40,665	21,667
System integration projects	2,802	13,283	13,356
Other	8	36	38
Unallocated corporate assets	15,418	73,047	70,346
Consolidated total assets	26,811	127,031	105,407

D. Segment liabilities

	December 31, 2010	December 31, 2010	December 31, 2009
	Convenience translation into EURO, (unaudited)	(in thousands) NIS	
Products	3,600	17,057	9,767
System integration projects	6,983	33,080	22,267
Other	20	96	131
Unallocated corporate liabilities	8,577	40,639	44,177
Consolidated total liabilities	19,180	90,872	76,342

E. Capital expenditure

	For the year ended December 31, 2010	For the year ended December 31, 2010	2009	2008
	Convenience translation into EURO, (unaudited)	(in thousands) NIS		
Products	87	413	249	365
System integration projects	143	678	311	203
Unallocated capital expenditure	1,166	5,527	6,633	8,312
Consolidated total capital expenditure	1,396	6,618	7,193	8,880

F. Depreciation and amortization

	2010 (EURO)	2010	2009	2008
Products	64	302	395	506
System integration projects	105	496	494	281
Unallocated depreciation and amortization	1,175	5,572	5,955	5,103
Total depreciation and amortization	1,344	6,370	6,844	5,890

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,		
	2010	2010	2009	2008
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Israel	16,527	78,305	27,217	18,833
Europe	8,657	41,016	29,584	34,896
America	6,085	28,830	23,542	21,870
Other destinations	1,019	4,828	3,775	4,121
	32,288	152,979	84,118	79,720

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

	December 31, 2010	December 31, 2010	December 31, 2009
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Israel	7,953	37,685	36,498
America	54	255	247
Consolidated total non-current assets	8,007	37,940	36,745

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,		
	2010	2010	2009	2008
	(in thousands)			
	Convenience translation into EURO, (unaudited)	NIS		
Costumer A (system integration projects segment)	11,673	55,305	8,969	-

Note 26 - Profit (loss) per share

Profit (loss) for the year				
Basic and Fully diluted	2,318	10,979	8,482	(2,946)
Weighted average share capital (number of shares)				
Basic and Fully diluted	10,368,102	10,368,102	11,007,991	11,048,436

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, 2010	December 31, 2009
	(in thousands) NIS	
Financial assets		
Financial assets at fair value through the statement of operations:		
Financial assets classified as held for trading	18,786	18,119
Loans and receivables	15,490	13,776
Financial liabilities		
Financial liabilities measured at reduced cost	69,654	57,579
Financial liabilities at fair value through the statement of operations classified as held for trading	-	100

Note 27 - Financial Instruments (cont'd)

B. Financial Risk factors

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

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

1. Market Risks

A. Currency and Index risks

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

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

3. The Company has bonds linked to the CPI index for large amounts, and therefore changes in consumer price index can create an exposure for the Company.

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

B. Interest risks

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

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

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

C. Price risks

The Company has investments in marketable financial instruments on the stock exchange, mainly bonds, classified as financial assets measured at fair value through the statements of operations, for which the Company is exposed to a risk for fluctuations in the price of the securities based on stock exchange market prices. The balance in the financial statements as at December 31, 2010, of these investments, is NIS 18,786 thousands (2009 – NIS 18,199 thousands).

Note 27 - Financial Instruments (cont'd)

B. Financial Risk factors (cont'd)

2. Credit Risks

As at December 31, 2010 the company had trade account receivables and other account receivables amounting to approximately NIS 15,490 thousands. The company does not predict material credit risks in respect of trade account receivables and other account receivables.

3. Instability risks

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

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

The following table presents the contractual maturities dates of the financial liabilities (including interest payments):

December 31, 2010:

	1th year	2th year	3th year	4th year	5th year and after	Total
				NIS, (in thousands)		
Accounts payable - trade	25,755	-	-	-	-	25,755
Accounts payable - other	7,964	-	-	-	-	7,964
Loans from banks and others	4,667	4,560	4,453	3,076	3,254	20,010
bonds	7,136	6,768	6,400	-	-	20,304
	45,522	11,328	10,853	3,076	3,254	74,033

December 31, 2009:

	1th year	2th year	3th year	4th year	5th year and after	Total
				NIS, (in thousands)		
Accounts payable - trade	10,775	-	-	-	-	10,775
Accounts payable - other	8,526	-	-	-	-	8,526
Loans from banks and others	1,212	1,194	1,171	1,145	3,966	8,688
Convertible bonds	8,920	-	-	-	-	8,920
bonds	7,155	6,976	6,616	6,259	-	27,006
	36,568	8,170	7,787	7,404	3,966	63,895

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,	
	2010	2009	2010	2009
	NIS, (in thousands)			
Financial liabilities (1)				
Convertible bonds linked to the USD	-	(8,409)	-	(8,548)
Convertible bonds linked to the Israeli CPI	(17,207)	(22,123)	(19,208)	(24,554)

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

The balance in the financial statements of cash and cash equivalents, marketable securities, clients, debtors and receivables, credit from banks and others, obligations to suppliers and other payables are compatible to their fair values or near it.

D. Classification of financial instruments at fair value rating

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

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

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

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

Financial assets measured at fair value

	Level 1	Level 2	Level 3
	NIS, (in thousands)		
As at December 31, 2010:			
Financial assets at fair value through the statement of operations:			
Marketable securities	18,786	-	-

Financial liabilities measured at fair value:

As at December 31, 2010:

	Level 1	Level 2	Level 3
Financial liabilities at fair value through the statement of operations:			
Warrants	-	-	-

During 2010 there were no transfers for measuring fair value of any financial instruments between Level 1 and Level 2, and there were no transfers to or from Level 3 from measuring fair value of any financial instruments.

Note 27 - Financial Instruments (cont'd)

E. Embedded derivatives

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

The embedded derivatives were separated and measured at fair value through the statement of operations. The liabilities balance in the financial statements of the embedded derivatives, as at December 31, 2010, is NIS 3,951 thousand (in 2009 – a liability of NIS 1,501 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)	
2010	(27)	27
2009	(119)	119

	Sensitivity analyses for changes in the Euro interest rate	
	Profit (loss)	
	1% rate increase	1% rate decrease
	NIS (in thousands)	
2010	(156)	156
2009	(40)	40

	Sensitivity analyses for changes in the USD exchange rate	
	Profit (loss)	
	5% increase	5% decrease
	NIS (in thousands)	
2010	168	(168)
2009	328	(328)

	Sensitivity analyses for changes in the Euro exchange rate	
	Profit (loss)	
	5% increase	5% decrease
	NIS (in thousands)	
2010	(1,295)	1,295
2009	402	(402)

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)	
2010	(359)	359
2009	(564)	564

	Sensitivity analyses for changes in the marketable securities market rates 5% increase	 5% decrease
	NIS (in thousands)	
2010	939	(939)
2009	906	(906)

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, 2010	December 31, 2009
	(in thousands) NIS	
Financial assets at fair value through the statement of operations:		
Marketable securities	18,786	18,119
Financial assets at reduced cost:		
Loans and receivables	15,490	13,776
	34,276	31,895

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

Note 27 - Financial Instruments (cont'd)

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, 2010:	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	752	-	10,405	-	7,629	18,786
Financial assets at reduced cost:						
Loans and receivables	3,730	5,315	-	-	6,445	15,490
	4,482	5,315	10,405	-	14,074	34,276
December 31, 2009:						
Financial assets at fair value through the statement of operations:						
Marketable securities	1,047	-	11,278	-	5,794	18,119
Financial assets at reduced cost:						
Loans and receivables	3,706	6,222	-	-	3,848	13,776
	4,753	6,222	11,278	-	9,642	31,895

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

December 31, 2010:						
Financial liabilities at fair value through the statement of operations:						
Financial liabilities measured at reduced cost	8,445	21,833	17,588	-	21,788	69,654
December 31, 2009:						
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

Note 28 - Events after the Balance Sheet Date

In February 2011 the Company filed a shelf prospectus to the Israel Securities Authority and to the Stock Exchange Tel Aviv LTD.

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

	Holding rate as at December 31, 2010 and 2009		Total investment as at December 31,	
	Shares with voting right	Shares with profit right	2010	2009
			(NIS, thousands)	
Unitronics Inc.	100%	100%	1,136	1,114
Unitronics building management and maintenance (2003) Ltd.	100%	100%	(237)	(295)

UNITRONICS (1989) (R"G) LTD.

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

December 31, 2010

Unitronics (1989) (R"G) Ltd.

Special report under Regulation 9C

Financial data from the consolidated financial statements

attributed to the company itself

Following the financial data and separate financial information attributed to the company itself from the consolidated financial statements of the Group as at December 31, 2010 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, 2010 and 2009 and for the three years the last of which ended December 31, 2010 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 8, 2011

Unitronics (1989) (R"G) Ltd.

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

	Additional information	December 31, 2010 Convenience translation into EURO, (unaudited) (1)	December 31, 2010 NIS	December 31, 2009 NIS
		(in thousands)		
Current assets				
Cash and cash equivalents	B	3,476	16,468	13,232
Marketable securities	C	3,965	18,786	18,119
Accounts receivable -				
Trade	C	2,424	11,483	11,079
Other	C	232	1,101	483
Accounts receivable - other - subsidiaries	F	936	4,437	5,806
Inventory		5,973	28,298	11,196
Inventory - work in progress		1,575	7,461	7,835
		18,581	88,034	67,750
Non-current assets				
Assets less liabilities associated with subsidiaries	F	190	899	818
Long-term deposits		85	404	159
Property and equipment, net		4,551	21,564	21,602
Intangible assets, net		3,317	15,717	14,737
		8,143	38,584	37,316
		26,724	**126,618**	**105,066**

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

Approved: March 8, 2011

(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, 2010	December 31, 2010	December 31, 2009
			(in thousands)	
		Convenience translation into EURO, (unaudited) (1)	NIS	
Current liabilities				
Current maturities of non-current loans		887	4,202	986
Current maturities of bonds and convertible bonds		1,273	6,032	14,306
Accounts payable -				
Trade		5,422	25,690	10,654
Other	D	4,918	23,300	24,511
Warrants		-	-	100
Embedded derivatives		834	3,951	1,501
		13,334	63,175	52,058
Non current liabilities				
Loans from the banks and others		3,066	14,526	6,780
Bonds		2,359	11,175	16,226
Liabilities for benefits to employees, net		334	1,583	937
		5,759	27,284	23,943
Shareholders' equity				
Share capital		74	352	352
Share premium		10,677	50,588	50,576
Capital reserve from translation of foreign operations		(248)	(1,176)	(743)
Company shares held by the company		(1,317)	(6,239)	(3,150)
Accumulated loss		(1,555)	(7,366)	(17,970)
		7,631	36,159	29,065
		26,724	**126,618**	**105,066**

(1) 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, 2010	For the year ended December 31, 2010	2009	2008
		Convenience translation into EURO, (unaudited) (1)	NIS (in thousands)		
Revenues		27,851	131,953	68,810	64,113
Revenues from subsidiaries	F1	3,430	16,250	10,428	10,686
Total revenues		31,281	148,203	79,238	74,799
Cost of revenues		22,828	108,155	54,165	52,271
Gross profit		8,453	40,048	25,073	22,528
Development expenses, net		674	3,194	2,116	1,617
Selling & marketing expenses		1,486	7,040	6,680	9,057
General & administrative expenses		1,421	6,733	5,447	3,975
General & administrative expenses to subsidiaries	F1	129	613	546	533
Capital gain		21	99	63	-
Operating profit		4,764	22,567	10,347	7,346
Financing income		398	1,884	5,380	286
Financing expenses		2,741	12,986	6,971	10,095
Profit (loss) for the year		2,421	11,465	8,756	(2,463)
The Company's share of subsidiaries losses		(103)	(486)	(274)	(483)
Profit (loss) for the year attributed to the company's shareholders		2,318	10,979	8,482	(2,946)

(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,		
	2010	2010	2009	2008
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	NIS		
Profit (loss) for the year attributed to the company's shareholders	2,318	10,979	8,482	(2,946)
Other comprehensive income				
Actuarial gain (loss)	(79)	(375)	112	(894)
Translation of foreign operation	(91)	(433)	(10)	(149)
Other comprehensive income (loss) for the year attributed to the company's shareholders	(170)	(808)	102	(1,043)
Total comprehensive income (loss) for the year attributed to the company's shareholders	2,148	10,171	8,584	(3,989)

(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,		
	2010	2010	2009	2008
		(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	2,318	10,979	8,482	(2,946)
Adjustments necessary to show the cash flows from operations (Appendix A)	888	4,203	10,032	14,739
Cash flows provided by operating activities of the company	3,206	15,182	18,514	11,793
Cash flows provided by (used in) operating activities from transactions with subsidiaries	78	369	(1,514)	4,899
Cash flows provided by operating activities	3,284	15,551	17,000	16,692
Cash flows for investing activities				
Sale of (investment in) marketable securities, net	(3)	(16)	12,298	8,405
Purchase of property and equipment	(324)	(1,533)	(2,325)	(1,047)
Sale of property and equipment	24	115	180	-
Investment in long-term deposits	(55)	(260)	(166)	-
Repayment of long-term deposits	35	167	218	106
Investment in intangible assets	(1,057)	(5,010)	(4,829)	(7,689)
Cash flows provided by (used in) investing activities	(1,380)	(6,537)	5,376	(225)
Cash flows for financing activities				
Receiving of long-term loans	3,071	14,552	-	-
Repayment of long-term loans	(573)	(2,713)	(1,076)	(1,010)
Repayment of convertible bonds	(1,815)	(8,600)	(8,600)	(10,629)
Early redemption of bonds	-	-	(5,286)	-
Early redemption of convertible bonds	-	-	(272)	-
Repayment of bonds	(1,254)	(5,939)	(5,858)	-
Exercise of options	2	11	-	-
Purchase of company shares by the company	(652)	(3,089)	(219)	(78)
Cash flows used in financing activities	(1,221)	(5,778)	(21,311)	(11,717)
Change in cash and cash equivalents	683	3,236	1,065	4,750
Cash and cash equivalents at beginning of year	2,793	13,232	12,167	7,417
Cash and cash equivalents at end of year	3,476	16,468	13,232	12,167

(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,		
	2010	2010	2009	2008
		(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	103	486	274	483
Depreciation and amortization	1,334	6,321	6,828	5,833
Loss (profit) from marketable securities, net	(137)	(651)	(2,717)	2,512
Benefit arising from warrants granted	-	-	-	3
Increase (decrease) in liabilities for benefits to employees, net	57	271	246	(253)
Capital gain	(21)	(99)	(63)	-
Reevaluation of warrants and conversion option of convertible bonds	(21)	(99)	83	(194)
Exchange rate changes of long-term loans and convertible bonds	(84)	(399)	1,649	1,057
Reevaluation of embedded derivatives	517	2,450	1,286	215
Profit from early redemption	-	-	(1,838)	-
Decrease (increase) in accounts receivable - trade	(85)	(404)	(2,220)	3,583
Increase in accounts receivable - other	(163)	(770)	(304)	(23)
Decrease (increase) in inventory	(3,610)	(17,102)	1,298	(459)
Decrease (increase) in inventory - work in progress	79	374	(7,835)	319
Increase (decrease) in accounts payable - trade	3,174	15,036	1,317	(3,085)
Increase (decrease) in accounts payable - other	(255)	(1,211)	12,028	4,748
	888	4,203	10,032	14,739

(1) See Note A.

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, 2010 (EURO 1 = NIS 4.7379).

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, 2010:						
Cash and cash equivalents	6,543	6,115	-	-	3,810	16,468
December 31, 2009:						
Cash and cash equivalents	3,242	7,499	-	-	2,491	13,232

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, 2010	December 31, 2009
	(in thousands) NIS	
Financial assets at fair value through the statement of operations:		
Marketable securities	18,786	18,119
Financial assets at reduced cost:		
Loans and receivables	17,021	17,217
	35,807	35,336

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

Additional information

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

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

December 31, 2010:	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	752	-	10,405	-	7,629	18,786
Financial assets at reduced cost:						
Loans and receivables	5,101	5,316	-	-	6,604	17,021
	5,853	5,316	10,405	-	14,233	35,807
December 31, 2009:						
Financial assets at fair value through the statement of operations:						
Marketable securities	1,047	-	11,278	-	5,794	18,119
Financial assets at reduced cost:						
Loans and receivables	1,460	6,222	-	-	9,604	17,286
	2,507	6,222	11,278	-	15,398	35,405

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, 2010	December 31, 2010	December 31, 2009
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Employees, payroll and taxes	660	3,125	2,148
Government institutions	136	644	-
Provision for vacation	118	557	289
Accrued expenses	694	3,290	5,849
	1,608	7,616	8,286

2. Instability risks attributed to the parent company

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

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

The following table presents the contractual maturities dates of the financial liabilities (including interest payments):

December 31, 2010:

	1th year	2th year	3th year	4th year	5th year and after	Total
				NIS, (in thousands)		
Accounts payable - trade	25,690	-	-	-	-	25,690
Accounts payable - other	7,616	-	-	-	-	7,616
Loans from banks and others	4,667	4,560	4,453	3,076	3,254	20,010
bonds	7,136	6,768	6,400	-	-	20,304
	45,109	11,328	10,853	3,076	3,254	73,620

December 31, 2009:

	1th year	2th year	3th year	4th year	5th year and after	Total
Accounts payable - trade	10,654	-	-	-	-	10,654
Accounts payable - other	8,286	-	-	-	-	8,286
Loans from banks and others	1,212	1,194	1,171	1,145	3,966	8,688
Convertible bonds	8,920	-	-	-	-	8,920
bonds	7,155	6,976	6,616	6,259	-	27,006
	36,227	8,170	7,787	7,404	3,966	63,554

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, 2010:

	US Dollar	Euro	Linked to the Israeli CPI	Linked to other basis	Not linked	Total
			NIS, (in thousands)			
Financial liabilities measured at reduced cost	8,127	21,834	17,589	-	21,691	69,241

December 31, 2009:

	US Dollar	Euro	Linked to the Israeli CPI	Linked to other basis	Not linked	Total
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

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 2006 (General Director of Israel Tax authority is authorized to extend the period of limitation for an additional year under certain conditions).

4. Tax losses attributed to the company itself

As at December 31, 2010 the company's tax losses carry forward (where deferred taxes were not recognized) amounts to approximately NIS 8 million (EURO 1.7 million).

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,		
	2010	2010	2009	2008
	Convenience translation into EURO, (unaudited)	(in thousands) NIS		
Profit (loss) before subsidiaries losses and before taxes on income	2,421	11,465	8,756	(2,463)
Tax rate	25%	25%	26%	27%
Theoretical tax	605	2,866	2,277	(665)
Increase in taxes resulting from non-deductible expenses	11	50	61	59
Temporary differences where deferred taxes were not recognized	(616)	(2,916)	(2,338)	547
	-	-	-	-

F. Capital notes, balances and substantial engagements with subsidiaries

1. Transactions with subsidiaries

	For the year ended December 31,	For the year ended December 31,		
	2010	2010	2009	2008
	Convenience translation into EURO, (unaudited)	(in thousands) NIS		
Revenues	3,430	16,250	10,428	10,686
General & administrative expenses	129	613	546	533

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

2. Engagements with subsidiaries

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

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

3. Capital notes and balances

In December 31, 2007 the company provided eight capital notes in the amount of 1 million each to the subsidiary Unitronics Inc. On December 31, 2010 the Company provided additional capital note in the amount of 1 million to the subsidiary Unitronics Inc. The Capital notes are nominated in NIS, not linked, do not bear interest and the maturity date will not be before the end of 5 years from the date they were provided. The repayment of this capital notes will defer to other obligations and will prior only to distribution of assets to shareholders in liquidation.

In addition there is ongoing balance of the subsidiary as at December 31, 2010 in the amount of approximately NIS 4.4 millions (approximately NIS 5.8 million as at December 31, 2009).

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

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

4.1.1 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.

4.1.2 On February 23, 2011, the Company issued a shelf prospectus. The Company has yet to offer securities pursuant to the shelf prospectus, and has yet to raise funds pursuant there to.

4.2 List of Investments in Active Subsidiaries and in Related Corporate (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	**Share type**	**No. of Shares**	**Total par value**	**Value of Shares in the Financial Statement**
UNITRONICS Building Management and Maintenance (2003) Ltd.	Ordinary - NIS 1	1,000	NIS 1,000	1,000NIS
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 Building Management and Maintenance (2003) Ltd.	(237)	100%
UNITRONICS Inc. (foreign company)	1,136	100%

4.3 Changes in Investments in Active Subsidiaries and in Related Corporate (Reg. 12)

None.

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

Below are details of the comprehensive income of the Company's active subsidiaries and its related companies in the last reported year that ended on or before the date of the statement of financial position of the corporation, adjusted to the date of the statement of financial position of the corporation:

Subsidiary	Profit (Loss) Before Tax	Profit (Loss) After Tax	Dividends	Management fee	Interest revenues
	NIS in thousands				NIS in thousands
UNITRONICS Building Management and Maintenance (2003) Ltd.	58	58	-	-	-
UNITRONICS Inc.	(1,046)	(1,046)	-	-	-

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

4.5 List of Loans (Reg. 14)

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

4.6 Trading on the Stock Exchange (Reg. 20)

In the reported year, the Company listed for trading on the TEL AVIV Stock Exchange Ltd. 1,958 ordinary shares, which it allotted for exercise of 1,958 option warrants (Series 2) allotted by the Company pursuant to the 2006 prospectus.

During the reported period, trading on the stock exchange of securities issued by the Company has not been halted.

As of the date of this report, the Company has 1,556,239 dormant shares. These dormant shares do not confer any rights on the Company (including any voting and/or equity rights). (For details see section 1.4.1 above and section 4.9 below.)

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

4.7.1 Below are details of the payments made by the Company and all payment undertakings (in cash and/or cash equivalents, loans, rights and any other benefit) which the Company took upon itself in the reported year, as recognized in the financial statements for the reported year, including with regard to retirement terms, for each of the five officers receiving the highest pay from among the Company's senior officers in that year (the three senior officers with the highest remuneration in the corporation, whose remuneration was provided in conjunction with their position with the corporation itself, are among the following five officers):

Name	**Role**	**Employment**	**Holding stake in corporate capital**	**Pay (NIS thousands)**	**Bonus**	**Share-based payment**	**Management fee**	**Commission**	**Interest**	**Rent**	**Other**	**Total (NIS thousands)**
HAIM SHANI	CEO and Chairman of the Board of Directors	100%	60.50%**	1,049	893							1,942
ALON KEIDAR *	Deputy CEO & General Manager, Products Division	100%		606	313							919
AMIR ANCHEL	General Manager, Systems Division	100%		631	240							871
YAIR ITZKOVICH	CFO	100%		463	120							583
BAREKET SHANI	Deputy CEO and Manager, Human Resources	100%		553								553
	Other Board members			103								103

* Mr. ALON KEIDAR's employment was terminated on November 1, 2010.

** As of December 31, 2010.

For explanations of the relationship between remuneration paid to officers and their contribution, see section 2.13 of Chapter B above.

4.7.2 Mr. HAIM SHANI and 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 Act). In accordance with the agreements, Mr. SHANI serves as the Company's CEO and Ms. SHANI as Deputy CEO and Manager, Human Resources.

Pursuant to the agreements, Mr. and Ms. SHANI are eligible to receive: (a) monthly salary of $15,000 and $7,500 respectively, (b) stock options - at least 115% of the number of options granted to the most senior Company employee other than Mr. and Ms. SHANI, each, subject to all statutory approvals, including consent of the stock exchange to listing for trading of the shares subject to these options and approval by the

General Meeting of Company shareholders pursuant to Section 275 of the Corporate Act, (c) common benefits, such as retirement insurance policy (contribution of 5% of monthly salary by the employee and 13.33% - by the Company), study fund (contribution of 2.5% of monthly salary by the employee and 7.5% - by the Company), use of Company car (without specifying the category of said car) and expense reimbursement, (d) annual leave of 30 days, which may be accumulated over up to 2 years.
Termination of Mr. SHANI's employment agreement requires approval by a 75% majority of Board members and advance notice of 6 months or more. Mr. SHANI may terminate his employment agreement for any reason, subject to 3 months' advance notice. As for Ms. SHANI, each party may terminate the agreement subject to 2 months' notice, and the Company would be required to provide a material explanation for termination, if initiated by the Company.
Mr. and Ms. SHANI have voluntarily consented to a 5% pay reduction for 12 months starting on January 1, 2003.

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, and the Company's transition to net income in this year. The cost of this bonus to the Company amounted to NIS 400,000. 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**"). within 30 days from the date of approval of the financial statements by the Company's Board of Directors in respect of every such calendar year, at a rate of 7.5% of the pretax income in that year (cost to the Company) ("the **framework transaction**"). The future bonuses will be calculated anew for each year (not on cumulative basis), regardless of losses, and shall be paid within 30 days from the approval date of the financial statements by the Company Board of Directors for each calendar year, and approval by the Audit Committee and the Company Board of Directors that their terms and conditions match those set in the aforementioned framework transaction. On March 13, 2008, the Audit Committee and the Company Board of Directors approved payment of a bonus amounting to NIS 208 thousand to Mr. HAIM SHANI with respect to 2007, in accordance with terms and conditions of the aforementioned framework transaction (for details, see immediate report of transaction with controlling shareholder or with Board member not requiring approval by the General Meeting, dated March 13, 2008, reference 2008-01-071985, included here in by way of reference). Mr. SHANI was not eligible to receive a bonus with respect to 2008. On March 4, 2010, the Audit Committee and the Company Board of Directors approved payment of a bonus amounting to NIS 689 thousand to Mr. HAIM SHANI with respect to 2009, in accordance with terms and conditions of the aforementioned framework transaction (for details, see immediate report of transaction with controlling shareholder or with Board member not requiring approval by the General Meeting, dated March 4, 2010, reference 2010-01-404199, included here in by way of reference). On March 8 2011, the Audit Committee and the Company Board of Directors approved payment of a bonus amounting to NIS 893 thousand to Mr. HAIM SHANI with respect to 2010, in accordance with terms and conditions of the aforementioned framework transaction (for details, see immediate report of transaction with controlling shareholder or with Board member not requiring approval by the General Meeting, dated March 8, 2011, reference 2011-01-073104, included here in by way of reference).

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. Since this division of salary allows allocation of some management resources to US markets, in order to assist in growth and development of the Company's business operations in these markets, and also allows Mr. SHANI to be involved and present in operations of the subsidiary without incurring additional payroll expenses for the Company (compared to employing any third party in said position), the Audit Committee and the Company Board of Directors have determined that this amendment would only benefit the Company.

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. The Company's Audit Committee and Board of Directors justified this decision, *inter alia*, by the fact that the Company is materially dependent on continued service by Mr. HAIM SHANI and Ms. BAREKET SHANI, and loss of service of either one of them would have material negative impact on the Company and/or its financial results, and extension of these agreements is in the Company's best interest (for details, see immediate report of transaction with controlling shareholder or with Board member not requiring approval by the General Meeting, dated May 21, 2008, reference 2008-01-141630, included here in by way of reference) Note that the aforementioned approvals were received in view of a strict, conservative approach adopted by the Company, even though the agreements do not require the Company to obtain such approval, and the agreements are automatically extended for additional 5-year terms, unless the Board of Directors resolves to terminate them, as set forth above.

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 duration of the waiver was 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 Corporate Regulations (reliefs in transactions with interested parties), 2000, namely that the sole purpose of the transaction is to benefit the Company. (For details, see immediate report of transaction with controlling shareholder or with Board member not requiring approval by the General Meeting, dated May 21, 2009, reference 2009-01-117396, included here in by way of reference)

The Company is materially dependent on continued service by Mr. HAIM SHANI and Ms. BAREKET SHANI. Loss of services of Mr. SHANI or Ms. SHANI may materially impact the Company's financial results.

This material dependence on continued service by Mr. HAIM SHANI and Ms. BAREKET SHANI is due, *inter alia*, to the following:

(1) As Company founders, Mr. SHANI And Ms. SHANI have long-standing, close and direct knowledge of all technologies and products being developed, manufactured and distributed by the Company, from its inception to date, as well as with markets, customers and service providers of the Company.

(2) Mr. SHANI and Ms. SHANI have a well-known reputation in the Company's business area, and the Company's reputation is tightly linked to the fact that Mr. SHANI and Ms. SHANI are controlling shareholders and officers of the Company.

(3) Consequently, Mr. SHANI And Ms. SHANI are actively involved in all levels of daily operations of the Company, and replacing them would require a very long training process, as well as replacements with similar knowledge and experience to those of Mr. SHANI and Ms. SHANI, which would require significant resources.

(4) Furthermore, replacing Mr. SHANI and Ms. SHANI may involve significant cost, in view of the low pay they have been receiving from the Company over the years, compared to similar officers in companies of a similar size.

4.7.3 Mr. ALON KEIDAR – 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. Mr. KEDAR's employment by the Company was terminated on November 1, 2010.

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 was entitled under the Agreement to social benefits (vacation days, sick days and convalescence pay). As mentioned above, this agreement was terminated on November 1, 2010.

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. During 2010, Mr. Anchel was given a onetime grant of NIS 240 thousand for his outstanding contribution this year.

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 executive insurance policy, pension fund and continuing education fund and use of a company car. In addition, Mr. ANCHEL is entitled under the Agreement to social benefits (vacation days, sick days and convalescence pay).

4.7.5 Mr. YAIR ITZKOVICH – On August 24, 2000, an employment agreement (in this section: the "**Agreement**") was signed between the Company and Mr. YAIR ITZKOVICH. The Agreement was made for an unspecified period, and it was stipulated that a party thereto may terminate it at any time by giving 30 days advance notice in writing.

Amendments to the agreement were signed on August 30, 2001 and on April 18, 2007.

Mr. ITZKOVICH's gross salary is calculated according to NIS 29,000, gross, per month of work. It was further stipulated in the Agreement that Mr. ITZKOVICH is entitled to the following fringe benefits: contributions to executive insurance policy, pension fund and continuing education fund and use of a company car. In addition, Mr. ITZKOVICH is entitled under the Agreement to social benefits (vacation days, sick days and convalescence pay). During 2010, Mr. Itzkovich was given a onetime grant of NIS 120 thousand for his outstanding contribution this year

4.7.5a Mr. EYAL SABAN - the Company VP provides services via a service company under his control, in exchange for payment of a fixed management fee, pursuant to a service agreement dated March 22, 2004. Between June 2007 and April 2010, Mr. SABAN provided his services to the Company for only two days each week.

The Agreement was made for an unspecified period starting on January 2000, and it was stipulated that a party thereto may terminate it at any time by giving 60 days advance notice in writing. The agreement, as amended from time to time, stipulates that in exchange for Mr. SABAN's services, the service company under his control would be paid a monthly management fee of NIS 45,200. The service company is required to make contributions for social benefits with respect to his employment, as well as all statutory payments, and to compensate UNITRONICS for any damage or loss incurred as a result of any determination that employer-employee relations exist between UNITRONICS and the service provider. The service provider personally guarantees the obligations of the service company. The Company believes that it has no material exposure to claims of employer-employee relations between the Company and Mr. SABAN, based *inter alia* on the legal opinion obtained by the Company, whereby it is unlikely that any Court of Act would determine that such employer-employee relations exist.

4.7.6 According to a resolution of the Audit Committee and Board of Directors, approved by the Annual General Meeting of Company Shareholders on August 9, 2001, the Company's Independent Board Member and directors who do not serve as officers at the Company are entitled to annual compensation and participation compensation at the "fixed amount" specified in the Second and Third Schedules to the Corporate Regulations (Rules Regarding Independent Board Member Compensation and Expenses), 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 independent Board member of the Company, and for Mr. RON MISHAEL, who served at the time as an independent Board member of the Company, this being the "fixed amount" specified in the Second and Third Schedules to the Corporate Regulations (Rules Regarding Independent Board Member

Compensation and Expenses) (Amendment), 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 Corporate Regulations (Rules Regarding Independent Board Member Compensation and Expenses) (Amendment), 2008, which provide in Section 14 (Scope) that the compensation may be changed in respect of Independent Board Member 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 independent Board member of the Company.
(For further details, see immediate report concerning a transaction with a controlling shareholder or Board member that does not require the approval of the General Meeting, dated May 21, 2008, Reference No. 2009-01-141627, included here in by way of reference)

On July 1, 2008, the Board of Directors approved annual compensation and participation compensation for Mr. JOEL SELA, subject to his being appointed an independent Board member of the Company by the General Meeting, at the "fixed amount" specified in the Second and Third Schedules to the Corporate Regulations (Rules Regarding Independent Board Member Compensation and Expenses) (Amendment), 2008, and in accordance with the relevant rating of the Company's capital, subject to his appointment as an independent Board member being approved by the General Meeting.
On September 23, 2008, the appointment of Mr. JOEL SELA as an independent Board member was approved by the General Meeting.
(See immediate report concerning the results of a meeting, dated September 24, 2008, Reference No. 2008-01-004717, included here in by way of reference)

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 Board member 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 Corporate Regulations (Rules Regarding Independent Board Member Compensation and Expenses) (Amendment), 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 Audit Committee and the Board of Directors resolved that the aforementioned decision is in accordance with Section 1a of Corporate Regulations (Easements for Transactions with Interested Parties), 2000 ("**Easement Regulations**"), which provides that the entering of a publicly traded company into an agreement with a Board member as regards terms of employment and holding office, as these terms are defined in Section 270(3) of the Act, 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 Board member does not exceed the maximum amount under

Regulations 4, 5 and 7 of Corporate Regulations (Rules Regarding Independent Board Member Compensation and Expenses), 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 independent Board members, 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 independent Board member, and the compensation paid to independent Board members, 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 Board member that does not require the approval of the General Meeting, dated May 21, 2008, Reference No. 2008-01-141624).

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 independent Board member 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. 2007-01-354083, to the erroneous immediate report concerning the grant of indemnification to an officer, dated March 31, 2007, and sections 2 and 3 of the immediate report concerning the results of a meeting, published on July 3, 2007, Reference No. 2007-01-313657, included here in by way of reference).

On September 23, 2008, the General Meeting of Company Shareholders approved the resolutions of the Board of Directors from July 1, 2008, concerning Mr. JOEL SELA, an independent Board member 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. 2008-01-004717, included here in by way of reference).

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 for insurance claims is between $10,000 and $50,000 per event, based on the type of insurance event and claim location. The insurance period is effective retroactively from August 9, 1989, and is renewed each year, with the approval of the Company's management, which was authorized by the General Meeting on April 12, 2005 to renew the 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.

On March 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 Board member that does not require the approval of the General Meeting, dated March 4, 2010, Reference No. 2010-01-404205, included here in by way of reference). The current policy is effective through June 30, 2011.

4.7.9 The Company's Articles permit indemnification and exemption of officers, to the maximum extent permitted by the Corporate Act (for details see section 4.17).

On May 9, 2006, the General Meeting of Company shareholders approved the following: (a) indemnification and exemption of officers serving from time to time in the Company and/or in another company (except for officers who are controlling shareholders of the Company), 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 independent Board member 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 independent Board member 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	1,895
BAREKET SHANI	553
Other Board members	103

4.7a Control of the Corporation (Reg. 21a)

The controlling shareholder of the Corporation is Mr. HAIM SHANI. For more details about Mr. SHANI, see section 4.11 below.

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 Building 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 Building (contacting various suppliers in case of malfunction and/or for servicing and/or periodic testing, as per manufacturer's/supplier's instructions) as well as provision of cleaning, pest control, gardening and security services (via subcontractors). In return for these services, UNITRONICS Management charges monthly management fees at a rate of $2 per m^2 of each tenant's space in UNITRONICS Building, and in addition charges separately for electricity consumption according to readings of separate meters for UNITRONICS and for the other tenants in UNITRONICS Building (who share the expense, pro-rated to the area used by each tenant).

UNITRONICS Management also provides such management and maintenance services to the Private Floors in UNITRONICS Building, 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 - see section 4.8.2 below) to pay the full management fees charged by UNITRONICS Management, and said tenants pay UNITRONICS Management directly for management services at the same rate per square meter paid by 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 1,238 thousand, NIS 1,035 thousand and NIS 1,028 thousand for 2008, 2009 and 2010 respectively; of which NIS 533 thousand, NIS 546 thousand and NIS 613 thousand, respectively, were paid by the Company, and NIS 705 thousand, NIS 489 thousand and NIS 415 thousand, respectively, by third parties. The decline in revenues from third parties is due to termination of leases of certain areas of the building, which in part were leased to the Company (see section 4.8.2 below) and in part - remained vacant for a period in which it generated no revenues for the Company.

4.8.2 In July 2009, an agreement terminated under which the Company had leased an area of 632 square meters in the building called UNITRONICS Building 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 Board member 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 m^2 of office space in UNITRONICS Building, as well as 20 parking spaces.

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

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 Building are leased to third parties that are not related to the Company or to the Company's controlling shareholders, and are also better than customary rental terms (price/period) in general at Airport City for areas of similar or inferior finishing level offering similar and/or inferior general services, which to the best of the Company's knowledge are being leased at the time of this report at prices ranging between NIS 60 and NIS 67 per m^2 (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. 2009-01-

117399, 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. 2009-01-182700, and immediate report on the results of a meeting, dated July 29, 2009 – Reference No. 2009-01-182697, included here in by way of reference.)

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 2010 to about NIS 76 thousand.

4.8.4 Prior to publication of the Company shelf prospectus published on February 23, 2011 ("the shelf prospectus"), discussions were held by representatives of the Israeli Securities Authority ("ISA") and by Company representatives with regard to the ISA request that the Company act to amend its Articles of Association with regard to appointment of Board members, which is a staggered board replacement arrangement.
Since the Company disagreed with the ISA position on this issue, and in order to allow the prospectus to be published prior to conclusion of legal proceedings on this issue, the Company informed the ISA in writing, prior to making the amendment, of its consent to the following principles (which would apply pending such change in the Company's Articles of Association):

(a) Although the Company and ISA have yet to conclude discussions of this issue (the amendment to the Company's Articles requested by the ISA), in view of the current holding structure of the Company there is currently no need to settle this issue, and therefore the ISA consent to publishing the prospectus was given subject to the condition set forth in section (b) below, which would remain in force for as long as provisions of the Company's Articles include a staggered board mechanism.

(b) Should there be, in the future, no controlling shareholder in the Company, or should the controlling shareholder of the Company hold less than 45% of voting rights in the Company (for this matter, "holding" and "control" - as defined in the Securities Act), and should the Company wish to offer to the public shares or securities convertible into shares (including securities which may be exercised into shares) at such time when there is no controlling shareholder in the Company or the controlling shareholder there of holds less than 45% of voting rights in the Company, or should the public offering result in a situation where there is no controlling shareholder in the Company or the controlling shareholder there of holds less than 45% of voting rights in the Company - the Company undertook to apply to the ISA to conclude discussion of this issue, and has committed not to use the shelf prospectus by publishing shelf offering reports pursuant there to for public offering of shares or securities convertible into shares prior to conclusion of discussion of this issue, with ISA organs or any other competent instance. Furthermore, the foregoing shall also apply to private placement of shares or securities convertible into shares, if at that time there is no controlling shareholder in the Company or the controlling shareholder there of holds less than 45% of voting rights in the Company, or should the private placement result in a situation where there is no controlling shareholder in the Company or the controlling shareholder there of holds less than 45% of voting rights in the Company.

The Company's notice to the ISA also indicated that this, nor the ISA consent to publication of the prospectus, does not and shall not constitute consent by any of the parties to claims made by the other party. The Company also clarified that its notice, or the consent, would not alter or detract from the positions of the Company or the ISA on the issue at hand, when the need arises to conclude negotiation there of.

4.9 Holdings of interested parties and senior officers (Reg. 24)

Below is information, to the best of the Company's knowledge, with regard to shares and other securities of the Company, a subsidiary and an associate of the Company held by each interested party in the Company as of the report date (for this matter, the Company itself and senior officers there of constitute interested parties):

Company:

Holder name	Ordinary shares	Options (non-negotiable)	Percentage of issued capital	Percentage of voting rights	Percentage of issued capital	Percentage of voting rights
			Undiluted		Fully diluted	
HAIM SHANI [2]	6,139,551		60.50%	60.50%	59.27%	59.27%
UNITRONICS (1989) (R"G) Ltd.*	1,556,239		15.37%	0	15.06%	0

* Buy-back 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 and on the EuroNext stock exchange in Brussels, Belgium. As of December 31, 2010, the Company held a total of 1,530,416 shares purchased as aforementioned (out of 11,678,504 ordinary shares in the Company's issued capital). These purchases were made for a total sum of NIS 6,240 thousand and at prices of between NIS 1.51 and NIS 5.50 per share. Through the date of this report, an additional 25,823 shares were purchased by the Company for a total sum of NIS 126 thousand and at an average price of NIS 4.90 per share. As of the date of this report, the Company holds 1,556,239 shares thus purchased. As long as these shares are owned by the Company, they are "dormant shares" within the meaning of this term in the Corporate Act, 1999. For further details see section 1.4.1 above.

[2] 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. These shares also include 50 Company shares held through CORPUS COLOSSUM Ltd., a private company registered in Israel, in which Mr. SHANI, the Company CEO and Chairman, holds 100% of issued share capital and voting rights.

The Company also purchased debentures (Series 2) issued to the public (for details see section 1.19.3 of this report).

In subsidiary and associates:

None.

4.10 Registered Capital, Issued Capital and Convertible Securities (Reg. 24A)

4.10.1 Registered and Issued Capital

The Company's registered capital is NIS 2,000,000, divided into 100,000,000 ordinary shares with a par value of NIS 0.02 each.

The Company's issued capital is NIS 233,570.08, composed of 11,678,504 ordinary shares with a par value of NIS 0.02 each. As of the date of this annual report, the Company holds a total of 1,556,239 dormant shares; these dormant shares do not vest the Company with any rights (including voting rights and/or rights in capital).

4.10.2 Securities - General

The Company's capital includes securities as follows:

a. NIS 16,140,000 par value debentures (Series 2), listed for trading on the TEL AVIV Stock Exchange, out of NIS 34,000,000 par value debentures (Series 2) offered pursuant to a prospectus published by the Company on August 16, 2006 ("**the 2006 prospectus**"). For details concerning terms and conditions of the debentures, and buy-back of debentures (Series 2), see section 1.19.3 above.

b. 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 - Stock 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 2011.
Options granted under the 2001 plan may be exercised in lots over the term of the options ("**vesting period**"). The option vesting period is determined by the Company Board of Directors and may vary from one offeree to another. If not otherwise indicated, options may be exercised through the fifth anniversary of their grant date. The options may not be transferred by the offeree, other than by testament or inheritance Act, and during the offeree's lifetime, the options may

only be exercised by the offeree or their legal representative. The options shall expire upon such date and pursuant to such conditions to be specified by the Company Board of Directors. In general (for employees), no later than 12 months after termination of employment, other than in case of death or dismemberment, in which case the options may be exercised within a 3-month period. The 2001 plan includes adjustment mechanisms in case of changes in the Company's share capital (such as distribution of bonus shares, split or reverse split of share capital), merger, acquisition and re-structuring. The Company Board of Directors may also include on option agreements provisions which may accelerate vesting of options soon prior to such a merger or acquisition.
Under the 2001 Plan, options have been granted to employees, officers and consultants of the Company for the purchase of 793,499 ordinary shares at an exercise price ranging from €0.91 to €2.70 per share. All the options granted under this plan have expired, pursuant to their terms, without being exercised.

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 2001 Plan.

As of the report date, options under the 2003 Plan to purchase 607,000 ordinary shares have been granted to employees who are not interested parties, of which options to purchase 397,000 shares have expired unexercised as per their terms up to the report date.

On April 2007 options to purchase 210,000 ordinary shares were allotted to a former employee of the Company (for details see section 4.17.6 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.

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 capitalas of the report date:

Type of convertible security / option plan	**Framework of ordinary shares of NIS 0.02 par value each that were reserved for allotment / conversion**	**Amount of shares underlying securities that were actually allotted / granted out of the framework by the report date**	**Date of allotment / issuance**	**Amount of shares underlying securities that expired / were paid by the report date**	**Amount of shares receivable in the future for exercising options that were actually allotted / granted as of the report date (vested / non-vested)**	**Amount of shares exercisable (vested) / convertible as of the report date**	**Exercise price / conversion ratio**	**Expiration date**
The 2001 Plan[5]	950,000	-	-	-	-	-	-	-
The 2003 Plan[6]	1,000,000	105,000	10.6.07	0	105,000	105,000	€1.30	August 31, 2011
		105,000	10.6.07	0	105,000	105,000	€1.30	August 31, 2012[7]
		[8] 498,000				0		
Total	1,950,000				210,000	210,000		

Below is further information about the Company's option plans in force as of the date of this annual report:
The percentage of option warrants which may be allotted pursuant to the option plans below, assuming full exercise of all option warrants in each plan, and assuming full dilution of all convertible securities in the Company as of December 31, 2010, are as follows:

	Effective framework	**Percentage calculated for all issued share capital**		**Percentage calculated for issued share capital excluding dormant shares**		
Effective option plans		**Plan dilution**	**Fully diluted**	**Plan dilution**	**Fully diluted**	**Effective**
2001	950,000	7.52%	6.97%	8.56%	7.85%	May 2011
2003	1,000,000	7.89%	7.34%	8.97%	8.27%	2013

5 For details, see section 4.10.3b above. All options allotted under this plan have expired.
6 For details, see section 4.10.3c above.
7 The economic value of the option as of the grant date is €0.061 (based on data from the Tel Aviv Stock Exchange as set forth above). The total beneficial value of the options granted on the above date is €610.
8 Options under the 2003 Option Plan transferred to a trustee as stated in section 4.10.3c above.

4.10.5 Registry of Shareholders of the Corporation (Reg. 24b)

Below is a registry of shareholders of the Company as of the date of this report:

Shares registered in the owner's name

Number of share certificates	Shareholder name (1)	Personal / Corporate ID	Address	Share class	Par value (NIS)	Number of Shares	From number	Through number	Allocation / transfer date	Certificate date	Remarks (2)
	HAIM SHANI	056548142	20 BAZELET Street, SHOHAM	Ordinary	0.02	6			28.10.99		
	INTERPROFESSIONELLE (CIK)	959999996	Brussels, Belgium	Ordinary	0.02	8,426,694			28.10.99		
	INTERPROFESSIONELLE (CIK)	959999996	Brussels, Belgium	Ordinary	0.02	437,638			17.01.01		Allocation
	CORPUS COLOSSUM Ltd.	7-309554-51	20 BAZELET Street, SHOHAM	Ordinary	0.02	50			27.3.01		Transfer
	INTERPROFESSIONELLE (CIK)	959999996	Brussels, Belgium	Ordinary	0.02	109,410			29.1.03		Allocation
	INTERPROFESSIONELLE (CIK)	959999996	Brussels, Belgium	Ordinary	0.02	1,902,748			18.12.03		Allocation
	INTERPROFESSIONELLE (CIK)	959999996	Brussels, Belgium	Ordinary	0.02	(1,000,000)			12.04.05		Transfer
	BANK LEUMI LE-ISRAEL Registration Company Ltd.	51-009806-4	32 YEHUDA HA-LEVI Street, TEL AVIV	Ordinary	0.02	800,000			20.5.04		Allocation
	BANK LEUMI LE-ISRAEL Registration Company Ltd.	51-009806-4	32 YEHUDA HA-LEVI Street, TEL AVIV	Ordinary	0.02	1,000,000			12.04.05		Transfer
	BANK LEUMI LE-ISRAEL Registration Company Ltd.	51-009806-4	32 YEHUDA HA-LEVI Street, TEL AVIV	Ordinary	0.02	1,958			22.4.10		Allocation
			Total			11,678,504					

Dormant shares

Share certificate number	Share class	Par value (NIS)	Number of Shares	From number	Through number	Date of purchase / conversion of shares into dormant shares	Remarks
	Ordinary	0.02	2,468			17/08/2005	Purchase by the Company
	Ordinary	0.02	990			18/08/2005	"
	Ordinary	0.02	1,050			21/08/2005	"
	Ordinary	0.02	500			22/08/2005	"
	Ordinary	0.02	800			23/08/2005	"
	Ordinary	0.02	14,000			30/08/2005	"
	Ordinary	0.02	10,000			31/08/2005	"
	Ordinary	0.02	12,954			01/09/2005	"
	Ordinary	0.02	5,000			04/09/2005	"
	Ordinary	0.02	4,000			07/09/2005	"
	Ordinary	0.02	320			12/09/2005	"
	Ordinary	0.02	400			13/09/2005	"
	Ordinary	0.02	1,000			20/09/2005	"
	Ordinary	0.02	1,000			22/09/2005	"
	Ordinary	0.02	7,000			26/09/2005	"
	Ordinary	0.02	1,265			27/09/2005	"
	Ordinary	0.02	2,000			28/09/2005	"
	Ordinary	0.02	3,778			21/11/2005	"
	Ordinary	0.02	50,000			19/12/2005	"
	Ordinary	0.02	3,000			05/01/2006	"
	Ordinary	0.02	10,900			08/01/2006	"
	Ordinary	0.02	420,000			30/11/2006	"
	Ordinary	0.02	25,000			06/05/2007	"
	Ordinary	0.02	35,544			7/11/2007	"
	Ordinary	0.02	51,911			17/9/2008	"
	Ordinary	0.02	34,981			9/12/2009	"
	Ordinary	0.02	7,475			10/12/2009	"
	Ordinary	0.02	11,619			23/12/2009	"
	Ordinary	0.02	11,455			24/12/2009	"
	Ordinary	0.02	11,678			27/12/2009	"
	Ordinary	0.02	1,096			28/12/2009	"
	Ordinary	0.02	9,907			30/12/2009	"
	Ordinary	0.02	6,200			03/01/2010	"
	Ordinary	0.02	32,757			05/01/2010	"
	Ordinary	0.02	23,828			07/01/2010	"
	Ordinary	0.02	5,700			10/01/2010	"
	Ordinary	0.02	14,562			11/01/2010	"
	Ordinary	0.02	12,704			12/01/2010	"
	Ordinary	0.02	7,493			13/01/2010	"

	Ordinary	0.02	10,470			14/01/2010	"
	Ordinary	0.02	18,730			17/01/2010	"
	Ordinary	0.02	25,023			19/01/2010	"
	Ordinary	0.02	10,498			20/01/2010	"
	Ordinary	0.02	11,098			26/01/2010	"
	Ordinary	0.02	71,500			01/02/2010	"
	Ordinary	0.02	35,000			03/02/2010	"
	Ordinary	0.02	13,000			07/02/2010	"
	Ordinary	0.02	28,169			08/02/2010	"
	Ordinary	0.02	45,998			10/03/2010	"
	Ordinary	0.02	23,896			11/03/2010	"
	Ordinary	0.02	36,580			15/03/2010	"
Share certificate number	Share class	Par value (NIS)	Number of Shares	From number	Through number	Date of purchase / conversion of shares into dormant shares	Remarks
	Ordinary	0.02	17,871			16/03/2010	"
	Ordinary	0.02	24,000			18/03/2010	"
	Ordinary	0.02	2,000			23/03/2010	"
	Ordinary	0.02	13,000			26/03/2010	"
	Ordinary	0.02	26,000			27/04/2010	"
	Ordinary	0.02	8,000			28/04/2010	"
	Ordinary	0.02	7,200			10/05/2010	"
	Ordinary	0.02	10,000			12/05/2010	"
	Ordinary	0.02	3,320			24/05/2010	"
	Ordinary	0.02	11,900			27/05/2010	"
	Ordinary	0.02	2,100			31/05/2010	"
	Ordinary	0.02	29,663			14/06/2010	"
	Ordinary	0.02	30,180			22/06/2010	"
	Ordinary	0.02	18,400			24/06/2010	"
	Ordinary	0.02	21,000			12/07/2010	"
	Ordinary	0.02	1,100			26/07/2010	"
	Ordinary	0.02	3,500			29/07/2010	"
	Ordinary	0.02	60,585			04/08/2010	"
	Ordinary	0.02	20,000			14/11/2010	"
	Ordinary	0.02	34,300			13/12/2010	"
	Ordinary	0.02	16,718			13/01/2011	"
	Ordinary	0.02	9,105			31/01/2011	"
		Total	1,556,239				

Material shareholders

Shareholder name	Share class	Par value (NIS)	Number of Shares	Holding stake (1)	Start date of material shareholder status	End date of material shareholder status	Remarks (2)
INTERPROFESSIONELLE (CIK)	Ordinary	0.02	9,876,490		28.10.99		
HAIM SHANI	Ordinary	0.02	*6,139,551		9.8.89		
Bank LEUMI LE-ISRAEL Registration Company Ltd.	Ordinary	0.02	1,801,958		20.5.04		
UNITRONICS (1989) (R"G) Ltd.	Ordinary	0.02	1,556,239				

4.10a Registered address (Reg. 25a)

Company's registered office: UNITRONICS Building, HA-ARAVE Street, Airport City, PO BOX 300, BEN GURION Airport, 70100.
Email: info@UNITRONICS.com.
Telephone number: 03-9778888
Fax number: 03-9778877

4.11 Board Members of the Corporation (Reg. 26)

Details of Board members: The following details for each Company Board member, by the following sub-sections: (1) name of the Board member; 1(a) ID number; (2) date of birth; (3) address for service of process; (4) citizenship; (5) membership in a committee or committees of the Board of Directors; (6) is the Board member an independent Board member as defined in the Corporate Act - yes/no, and does the Board member have accounting and financial expertise or professional qualifications; (7) is the Board member an employee of the Company, of a subsidiary, of a related company or of an interested party in the Company - the position or positions which the Board member holds there in; (8) date on which the Board member assumed office as a Company Board member; (9) education and occupation in the past five years, listing professions or fields of education, institution and the academic title or professional diploma held, and listing the corporations in which he serves as a Board member; (10) is the Board member, to the best of the knowledge of the Company and its other Board members, a relative of another interested party in the Company - yes/ no, and details; (11) is the Board member 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 Corporate Act - 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[9]; (6) No; has professional qualifications; (7) Yes, CEO of the Company, a Board member and the senior officer of UNITRONICS Building Management and Maintenance (2003) Ltd., Board member and president of UNITRONICS Inc.; (8) August 20, 1989; (9) High school; serves as a Board member

[9] Regarding this matter see Section 4.16.7 below.

of CARDIOSENSE Ltd., Corpus COLOSSUM Ltd., NETRIX Ltd.; (10) Yes, the husband of Mrs. BAREKET SHANI, a Board member and officer of the Company (see details here in below); (11) No.

b. (1) BAREKET SHANI; (1a) 058136631; (2) June 30, 1963; (3) 20 BAZELET Street, SHOHAM; (4) Israeli; (5) Board member and a member of the Securities Committee and of the Credit and Investments Committee; (6) No; has professional qualifications; (7) Yes, Deputy CEO and Human Resources Manager, a Board member of UNITRONICS Building Management and Maintenance (2003) Ltd.; (8) July 6, 1999; (9) Academic, BSc. in management and industrial engineering from the TECHNION - Israel Institute of Technology; (10) Yes, the wife of Mr. HAIM SHANI, Chairman of the Board of Directors and CEO of the Company; (11) No.

c. (1) ZVI LIVNE; (1a) 010025658; (2) July 22, 1947; (3) 20 YOHANAN HA-SANDLAR Street, HAIFA; (4) Israeli; (5) Board member, member of the Audit Committee, member of the Credit and Investment Committee, member of the Financial Statement Review Committee, Board member with accounting expertise; (6) No; has accounting and financial expertise as well as professional qualifications; (7) Yes, a Board member of UNITRONICS Building Management and Maintenance (2003) Ltd.; (8) July 8, 1999; (9) Academic, B.A in economics and accounting from Tel Aviv University, M.B.A from Tel Aviv University, holds an accountant diploma; serves as a financial and commercial advisor to a number of Israeli companies; senior partner in the accounting firm, SCHIFFER, FOGEL & LIVNE, CPA; (10) No; (11) Yes.

d. (1) MOSHE BARAZ; (1a) 058263476; (2) August 2, 1963; (3) 73 ADULAM Street, SHOHAM; (4) Israeli; (5) Board member, member of the Audit Committee, the Financial Statement Review Committee and of the Securities Committee, has accounting and financial expertise as well as professional qualifications; (6) Yes; has accounting and financial expertise as well as professional qualifications; (7) No; (8) December 8, 2006; (9) Academic - B.Ed. from the College of Management. Serves as VP and CFO of KFAR HA-MACABIA since 2004, and as Board member of GAM DAGAN Management and Holdings, Ltd.; (10) No; (11) Yes.

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

4.11.1 Directors having Accounting Skills: At the meeting of the Company's Board of Directors held on March 18, 2004, the Company's Board of Directors determined that the proper minimal number of directors of the Company having accounting and financial skills, taking into consideration, *inter alia*, the size of the Company, the type of its operation, its complexity, etc, would be one Board member, for as long as the Company's Board of Directors comprises up to six members. In actual fact, three directors with accounting and financial expertise out of 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) name of the officer; 1(a) ID number; (2) date of birth; (2a) date on which the officer assumed office; (3) position held by the officer with the Company, a subsidiary, a related company or an interested party in the Company; (4) is the officer related to another senior officer or to an interested party in the Company? - yes/no (5) education and business experience in the past five years, specifying the professions or fields of education, institution and the academic title or professional diploma held.

a. (1) EYAL SABAN; (1a) 058138710; (2) July 21, 1963; (2a) January 1, 2000; (3) VP; (4) No; (5) High school graduate and graduate of IDF MAMRAM training school; since 1995 has been serving as the manager of NETIUM Ltd.; serves as a Board member and CEO of NETIUM Ltd.

b. (1) YAIR ITZKOVICH; (1a) 058858176; (2) December 9, 1964; (2a) January 1, 1999; (3) Chief Financial Officer (CFO); (4) No; (5) High school education and Level III Bookkeeping from the Ministry of Labor at the College of Management.

c. (1) AMIT HARARI; (1a) 033591843; (2) 11/25/1976; (2a) 10/26/2010; (3) VP and Manager, Products Division; (4) No; (5) Academic, BSc in Industrial Engineering from TECHNION, MBA from TEL AVIV University. Prior to joining the Company, served as VP with Computer Business Solutions Ltd.

d. (1) EYAL HOROWITZ; (1a) 058876574; (2) 7/5/1964; (2a) 6/18/2000; (3) Company Internal Auditor; (4) No; (5) Academic, CPA, Act degree. Managing Partner, Head of CPA firm Oren Horowitz & Co. through its dissolution in 2008; Managing Partner and CEO of BAKER TILLY CPAs; Board Member and Member, EMEA Committee of BAKER TILLY International - an international CPA network. Attended international conferences and committees in Munich (October 2003), Brussels (May 2004) and North American Congress (May 2004). Between 2006-2007 served as Board Member with UBank; since 2004 has been serving as Global Board Member with BAKER TILLY International; Participates in public and professional committees, standing member of the Audit Standards and Procedures Committee of the Israel CPA Association; Senior Lecturer - academic track, College of Management.

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 ITZKOVICH, 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. ITZKOVICH is not authorized to sign, including in connection with the aforesaid.

c The signature of Mr. HAIM SHANI, Ms. BAREKET SHANI, Mr. YAIR ITZKOVICH 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 Act.

d 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. 2008-01-018033, included here in by way of reference.)

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)

Starting in August 2005, in view of the low share price at that time on the TEL AVIV and EuroNext stock exchanges, and as a vote of confidence for the Company, the Company started to buy back, from time to time, Company ordinary shares during trading on the stock exchange. Most of these purchases were made pursuant to share buy-back programs adopted by the Company Board of Directors from time to time. In these programs, the Board of Directors authorized the Company to purchase, from time to time, during trading on the TEL AVIV or EuroNext stock exchanges, or directly from unrelated parties, shares at a maximum amount set for each program individually, for a specified term, after the Board of Directors had reviewed and confirmed that diversification conditions pursuant to the Corporate Act were met, as well as other relevant data. The funding source for the aforementioned buy-back programs was operating revenues of the Company. For details of each program thus adopted, see immediate reports of event or matter outside the corporation's normal course of business, as listed below, which are included here in by way of reference: Report dated December 7, 2009 reference no. 2009-01-312105; report dated March 4, 2010 reference no. 2010-01-404196; report dated May 23, 2010 reference no. 2010-01-489135; report dated November 11, 2010 reference no. 2010-01-676662.
Through the reporting date, the Company has thus purchased a total of 1,556,239 shares (out of 11,678,504 Ordinary Shares in the Company's issued share capital. These purchases were

made for a total sum of NIS 6,365 thousand and at prices of between NIS 1.51 and NIS 5.50 per share. As of the report date, the Company owns all of the shares thus purchased, and while they are owned by the Company, these shares constitute "dormant shares", as defined in the Corporate Act. Furthermore, as of the report date, a share buy-back program adopted by the Company Board of Directors on November 11, 2010 is still in effect, authorizing the Company to purchase, from time to time during trading on the stock exchange or directly from unrelated parties, Company shares valued at up to NIS 1.5 million (including purchase-related expenses, such as fees of consultants and service providers in conjunction with the purchase). This program is effective through March 11, 2011. Pursuant to this program, through the publication date of this annual report, shares value dat NIS 373 thousand have been purchased.

4.17 The Company's Resolutions (Reg. 29 A)

Below are details of the Company's resolutions with regard to the approval of acts pursuant to Section 255 and 254(a) of the Corporate Act, 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 Indemnification: The Company's Board of Directors resolved, on March 18, 2004 (and the resolution was approved by the General Meeting of Company Shareholders of April 13, 2004) to undertake towards officers of the Company that the Company would indemnify them, in advance, in the cases set forth hereunder, in an amount not exceeding 25% of the Company's equity, as recorded in its financial statements as of the date of the indemnification, for all the officers. This amount will be added to the amount of all insurance benefits in respect of the types of determining events, which the Company will receive from time to time under any officers liability insurance. The determining events 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 Act) 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 Corporate Act, 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 Corporate Act or the Securities Act or any other Act applicable to the Company, including regulations enacted pursuant thereto, or pursuant to Acts 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 Corporate Act) or a purchase offer by or in connection with any of the above.

9. Any utterance or statement, including the expression of an opinion or position, that was made in good faith by the officer in the course of and by virtue of his office, including in the course of General Meetings or meetings of the Board of Directors of the Company, a subsidiary or a related company, or any of the committees of such Board of Directors.

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

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

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

13. Acts in connection with merger, spin-off, reorganization and 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:

"**Securities Act**" - the Securities Act, 1968
"**Corporate Act**" - the Corporate Act, 1999
"**Securities**" – as defined in section 1 of the Corporate Act.

The letters of indemnity granted include advance commitment by the Company to indemnify Company officers for any liability or expense in conjunction with the aforementioned events in this section, incurred by the officer due to any act made or to be made by them by virtue of their office with the Company and/or with another company, as set forth below:

(1) Financial liability to be imposed upon the officer to benefit another person by court verdict, including a verdict handed down by compromise or by arbitration and ratified by a court of law;
(2) Reasonable litigation expenses, including attorney fees, incurred by the officer subsequent to investigation or proceeding conducted against him by an authorized entity to conduct such investigation or proceedings, and which has ended with no indictment against him (as defined in the Corporate Act) and with no financial liability imposed on him in lieu of criminal proceedings (as defined in the Corporate Act), or which has ended with no indictment against him but with financial liability imposed on him in lieu of criminal proceedings in a felony not requiring proof of criminal intent;
In this section, "proceedings ended with no indictment in a matter subject to criminal investigation" and "financial liability imposed on him in lieu of criminal proceedings" - as defined in section 260(a)(1a) of the Corporate Act, 1999.
(3) Reasonable litigation expenses, including attorney fees, incurred by the officer or imposed on him by a court of law, in a proceedings filed against him by the company or by the other company or on its behalf or by another person or by criminal indictment of which he is found not guilty or by criminal indictment of which he is found guilty of a felony not requiring proof of criminal intent.

The Company's obligations pursuant to the letters of indemnity shall prevail for officers and/or their estate, even after termination of their office with the Company and/or with another company, provided that that acts for which indemnity is granted were carried out during their term in office with the Company and/or with another company, regardless of the discovery date of the event for which they are eligible for indemnification pursuant to the letters of indemnity.
The letters of indemnity also include a provision which exempts the officers of any liability for damage resulting from breach of their duty of care vis-à-vis the Company, except for their liability to the Company due to breach of their duty of care partitioned, provided that such breach was not made intentionally or recklessly, except if it was made with negligence only.
Should the total amount of indemnification payable by the Company at any time exceed the maximum indemnification amount, the maximum indemnification amount shall be divided among the Company officers eligible for such indemnification with respect to claims made against the Company pursuant to the letters of indemnity which are outstanding prior to said date, such that actual indemnification paid to each of these officers shall be pro-rata to the indemnification amount payable to each officer as percentage of the indemnification amount payable to all officers on cumulative basis, at that time, with respect to said claims.
The letter of indemnity also includes procedural provisions with regard to dates, payment methods, handling the defense of officers etc.

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 Corporate Act, 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. 2006-01-055275, and immediate report on the results of a meeting, for approval of a transaction with a controlling shareholder and/or for approval of a private offering, Reference No. 2006-01-055281, included here in by way of reference).

4.17.3 <u>Insurance</u>: 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 18 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 Board member that does not require the approval of the General Meeting, dated March 4, 2010, Reference No. 2010-01-404205 included here in by way of reference, and section 4.7.8 above).

4.17.4 <u>Transaction with an officer</u>: 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, 2009 and 2010 see sections 1.14.4 and 4.7.2 above).

4.17.5 On April 12, 2007, the Board of Directors approved a private allotment of 210,000 non-negotiable options to a former employee of the Company. The private allotment was a "private offering that is not a substantial private offering or an exceptional private offering," within the meaning of these terms in Regulation 1 of the Securities Regulations (Private Offering of Securities in a Listed Company), 2000. (For details see immediate report concerning a private offering that is not a 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. 2007-01-431957, amending the periods of exercise of the options that were published in the aforesaid report from April 15, included here in by way of reference).

4.17.6 <u>Transaction with an officer</u>: 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 independent Board member 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. 2007-01-354083, to the erroneous immediate report concerning the grant of indemnification to an officer, dated March 31, 2007, and sections 2 and 3 of the immediate report concerning the results of a meeting, published on July 3, 2007, Reference No. 2007-01-313657, included here in by way of reference).

4.17.7 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 independent Board member 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. 2008-01-004735, and immediate report on the results of a meeting, published on September 24, 2008, Reference No. 2008-01-004717, included here in by way of reference).

March 8, 2011

UNITRONICS (1989) (R"G) Ltd.

Mr. HAIM SHANI, CEO and
Chairman of the Board of Directors

ZVI LIVNE, Board member

Chapter E - Annual Report on Effectiveness of Internal Control over Financial Reporting and Disclosure

a. **Annual report on effectiveness of internal control over financial reporting and disclosure, pursuant to Regulation 9b(a) of Securities Law Regulations (Periodic and Immediate Reports), 1970 ("the regulations")**
b. **Certification by CEO pursuant to Regulation 9b(d)(1) of the regulations**
c. **Certification by CFO pursuant to Regulation 9b(d)(2) of the regulations**

<u>Below is the annual report on effectiveness of internal control over financial reporting and disclosure, pursuant to Regulation 9b(a) of the regulations</u>:

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

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

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

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

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

Management, supervised by the Board of Directors, shall review and assess the internal control over financial reporting and disclosure at the corporation and the effectiveness there of; based on this assessment, the Board of Directors and management of the corporation have reached the conclusion that internal control over financial reporting and disclosure at the corporation as of December 31, 2010, the date of these financial statements, is effective.

Certification by CEO pursuant to Regulation 9b(d)(1) of the regulations:

I, HAIM SHANI, certify that:

1. I have reviewed the periodic report of UNITRONICS (1989) (R"G) Ltd. ("the corporation") for 2010 ("the report").

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

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

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

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

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

March 8, 2011

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HAIM SHANI, CEO

Certification by CFO pursuant to Regulation 9b(d)(2) of the regulations

I, YAIR ITZKOVICH, certify that:

1. I have reviewed the periodic report of UNITRONICS (1989) (R"G) Ltd. ("the corporation") for 2010 ("the report").

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

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

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

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

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

March 8, 2011

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YAIR ITZKOVICH, CFO