Unitronics (1989) (R"G) Ltd

Periodic and Annual Report for 2014

The Company is a "Small Company" as defined in the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: the "Regulations"). On March 9, 2014, the Company's Board of Directors adopted the reliefs specified in the Regulations: (1) Annulment of the obligation to publish a report on the internal audit and an auditors' report in respect of the internal audit; (2) Raising the materiality threshold with respect to the attachment of valuations to 20%; (3) Raising the threshold for attaching statements of material consolidated companies to the interim reports to 40%; and (4) Exemption from implementation of the provisions of the Second Schedule of the Regulations (Details on Exposure to Market Risks and Methods of Managing Such Risks).

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Chapter A - Description of the Company's Business (Reg. 8A)

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

1.1 Company activity and description of its business development

The Company engages in the design, development, manufacture, marketing, sale and support of industrial automation products, mainly PLCs (programmable logic controllers) (hereinafter: "**PLCs**"). PLCs are computer-based electronic products (hardware and software) used for command and control of machines performing automated actions, such as production systems and other automated installations in various areas. The Company also provides design, construction and maintenance services within the framework of projects for the automation, computerization and integration of computerized logistic systems, mainly automated warehouses and mechanized distribution centers. Also, the Company engages, through wholly owned subsidiaries (and second tier subsidiaries), in the design, development, marketing, production, construction and maintenance of mechanized systems for automated parking solutions.

The Company was incorporated in August 1989 as a private company according to the Israeli Companies Ordinance (New Version), 5743-1983 (hereinafter: the **"Companies Ordinance"**). In July 1999 the Company became a public company as defined in the Companies Ordinance. In September 1999 the Company first published a prospectus offering its shares to the public in Belgium, subsequent to which its shares were listed for trading on the Euro.NM Belgium stock exchange in Belgium. In 2000, following the establishment of the EuroNext stock exchange in Belgium, trading of the Company's shares was moved to this stock exchange. In May 2004 the Company published a prospectus in Israel according to which shares and other securities of the Company were listed for trading also on the Tel Aviv Stock Exchange (hereinafter: the **"Stock Exchange"**).

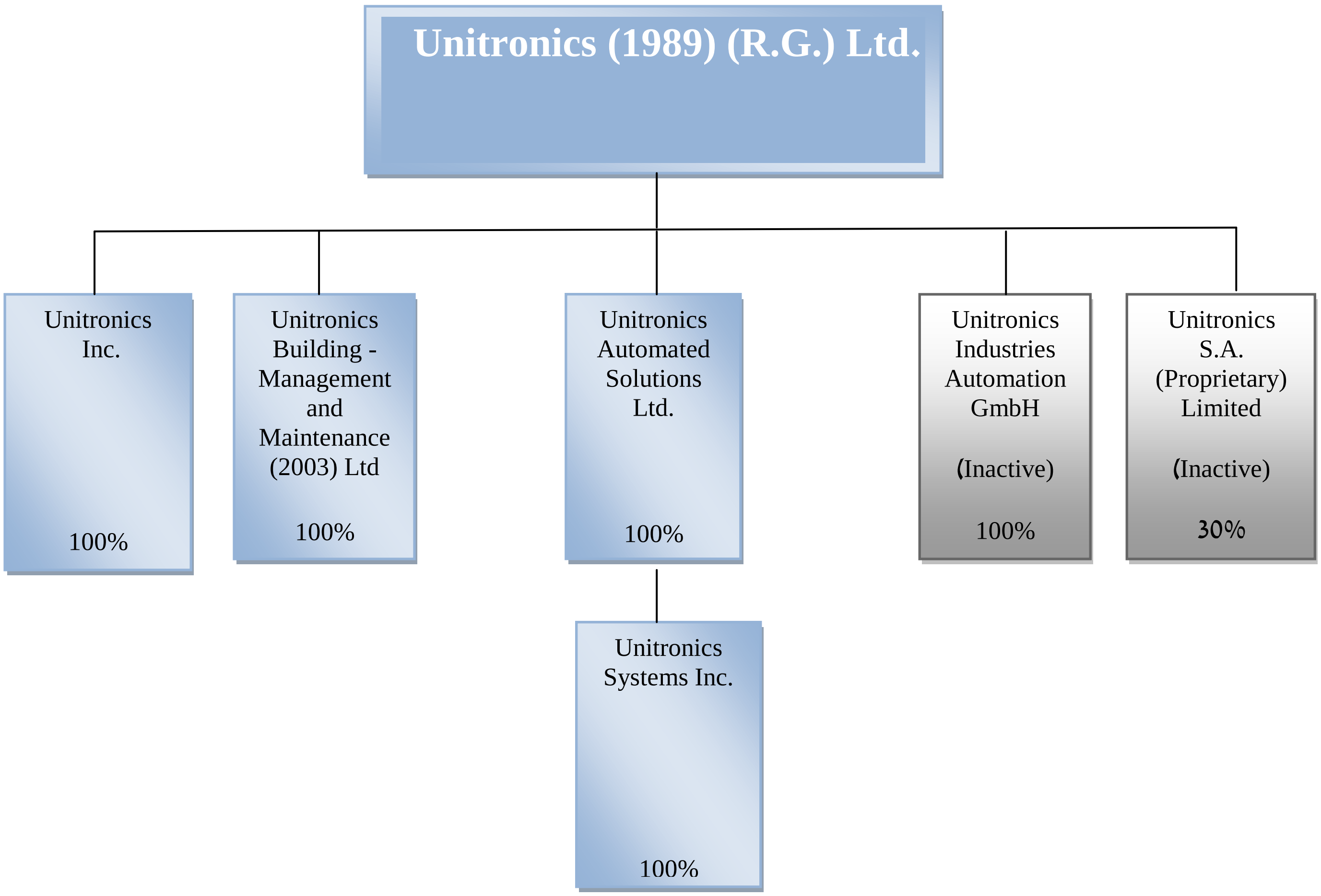
The Company operates mainly from an office and industry building situated in Airport City near the David Ben Gurion Airport (for further details see Section 1.13 of this Report).

1.2 Subsidiaries and holding structure diagram

The Company has three wholly-owned active subsidiaries and one active second tier subsidiary wholly owned by the Company (hereinafter: the "**Subsidiaries**"): Unitronics Inc., which is incorporated in the United States (Delaware) (hereinafter: "**Unitronics Inc.**") and engages primarily in coordinating and running the Company's product segment marketing and distribution operations in the United States; and Unitronics Building - Management & Maintenance (2003) Ltd. (hereinafter: "**Unitronics Management**"), which is primarily engaged in the management and maintenance of the Unitronics Building (for details see section 1.22.1 below); Unitronics Parking Solutions Ltd. (hereinafter: "**Unitronics Automated Solutions**"), which coordinates the Company's automated parking solutions business in Israel; and Unitronics Systems Inc.

(a subsidiary of Unitronics Automated Solutions), which is incorporated in the United States (Delaware) (hereinafter: "**Unitronics Systems Inc.**") and engages primarily in the Company's business operations in the field of automated parking systems and/or solutions in the US and in North America; the direct holdings of the Company in Unitronics Systems Inc. were transferred to Unitronics Automated Solutions during the reported period as specified below.

Below is a diagram of the holding structure of the Company and its subsidiaries (*):



(*) In November 2014, the Company sold its holdings in Unitronics Systems Inc. to Unitronics Automated Solutions for the par value of the shares of Unitronics Systems Inc.

1.3 Operating segments

The Company has three major operating segments as detailed below. In addition, the Company engages in the management and maintenance of the Unitronics Building through Unitronics Management Ltd.

Products segment: The Company is engaged, through the Products Department and Unitronics Inc., in the design, development, manufacture, marketing, sale and support of its products, mainly series of PLCs of various models that incorporate an operating panel (a keyboard and a display) as an integral part of the PLC, and connectivity (including Internet, intranet, and cellular phone communications), as well as external expansion units for the PLCs, software for the PLCs, for management of automatic systems including industrial automation, logistics systems, automated parking lots and for management of production floors, and additional auxiliary items.

System segment: The Company is engaged, through the Systems Department, in the design, construction and maintenance of computerized storage and/or logistics systems, mainly automated warehouses and computerized distribution centers, including the construction of new systems and/or the upgrading and rendering serviceable of existing systems, and maintenance services for these systems provided through framework arrangements or on a service call basis. The services of the Systems Department are provided to customers mainly in Israel.

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

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

During the past two years no investments were made in the capital of the Company, and, to the best of the Company's knowledge, no other material transaction was carried out with the Company’s shares by an interested party in the Company:

1.5 Dividend Distribution

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

The balance of distributable earnings under the law as at 31.12.2014 and the date of publication of this report is NIS 3,512 thousand.

On February 23, 2014 the Company's Board of Directors passed a resolution regarding the adoption of a Dividend Distribution Policy as of the date of publication of the Periodic Report for 2013 (for further details see Immediate Report dated February 23, 2014 of an event or matter outside the corporation’s ordinary course of business, Reference No. 2014-01-044944, included herein by reference and Note 17 to the consolidated financial statements in Chapter C).

Based on the earnings information of the Company specified in the financial statements for 2014 (Chapter C of this Periodic Report) and in accordance with the provisions of the Dividend Policy, the Company will not distribute a dividend from the earnings of 2014.

Part II – Other Information

1.6 Financial information on the Company's business activities

	For the year ended December 31		
	2014	**2013**	**2012**
	NIS thousands		
Revenues:			
Products	108,442	95,449	96,375
Systems	37,835	55,096	44,684
Parking solutions	24,641	5,195	664-
Other	393	439	403
Total Revenues*	171,311	156,179	142,126
Sector costs			
Products – fixed**	31,787	25,879	23,722
Products – variable***	50,120	49,089	50,794
Systems – fixed**	7,119	9,913	17,326
Systems – variable***	25,979	40,181	34,294
Parking solutions – fixed**	11,911	9,297	3,419
Parking solutions – variable***	19,840	3,561	-
Other– fixed ***	0	0	0
Other– variable***	425	414	398
Total ****	147,181	138,334	129,953
Sector results			
Products	26,535	20,482	21,859
Systems	4,737	5,002	(6,936)
Parking solutions	(7,109)	(7,664)	(2.754)
Other	(33)	25	4
Total	24,130	17,845	12,173
Un-attributable expenses	(10,442)	(8,403)	(7,389)
Profit from ordinary operations*	13,688	9,442	4,784

* Consistent with the financial statements
** Expenses that do not change as a result of changes in the Company's scope of activities
*** Expenses that do change as a result of changes in the Company's scope of activities
**** There are costs shared by the Company's business segments, the distribution index of which is determined by the number of employees in the segment

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

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

1.6.1 **Financial information on projects**

The following tables list the amount of revenue, direct costs and earnings of the Company from the Systems and Parking Solutions segments for the years 2014, 2013 and 2012 as well as other financial information in connection with the Company's projects in these areas.

The tables include projects with total individual revenues exceeding NIS 1 million that were carried out during 2014. The information for 2014 and the comparative information are with respect to these projects only. The application of the projects (including the comparative figures) varies depending on the date of completion of the projects in each reporting period.

Project revenue and progress (NIS thousands) (*)

Segment	Cumulative Revenue Recognized			Expected Revenue at 31.12.14	Total Revenue Expected + Actual
	2014	2013	2012		
Systems	197,842	168,816	129,702	20,654	218,496
Parking Solutions	29,467	4,259	-	36,219	65,686
Total	227,309	173,075	129,702	56,873	284,182

Segment	Weighted Percentage Progress			Advances Received at 31.12.14	Period Turnover		
	2014	2013	2012		2014	2013	2012
Systems	91%	80%	64%	9,104	29,026	39,114	17,876
Parking Solutions	45%	13%	-	1,759	24,856	4,259	-
Total	80%	71%	64%	10,863	53,882	43,373	17,876

Expenses and gross profit (NIS thousands) (*)

Segment	Cumulative Revenue Recognized			Expected Expenses at 31.12.14	Total Expected + Actual
	2014	2013	2012		
Systems	168,002	145,188	110,413	17,137	185,139
Parking Solutions	24,490	3,661	-	29,800	54,290
Total	192,492	148,849	110,413	46,937	239,429

Segment	Cumulative Gross Profit Recognized			Expected Gross Profit	Gross Profit Cumulative + Expected	Gross Profit Percentage (**)		
	2014	2013	2012			2014	2013	2012
Systems	29,840	23,628	19,289	3,517	33,357	15%	14%	15%
Parking Solutions	4,977	598	-	6,419	11,396	17%	14%	-
Total	34,817	24,226	19,289	9,936	44,753	15%	14%	15%

(*) The figures are only for projects that are included in the tables
(**) Not including related production overheads

1.7 General environment and impact of external factors on Company's activity

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

For an analysis of the general environment, as well as general information on areas of activity presented in this report below, the Company relies, *inter alia*, on several market studies. These sources include, among others, surveys and articles by Frost & Sullivan (http://www.frost.com), by IMS Research (http://imsresearch.com/), by ARC Advisory Group (http://www.arcweb.com), by IHS Technology (https://technology.ihs.com) (summaries accessible to the public on the website), , and by the International Parking Institute (hereinafter: "**IPI**") (http://www.parking.org). Hereinafter, wherever this report relies on the above market studies, this fact will be explicitly stated.

The Company's activity includes, as explained above, the activities of the Products segment, the Systems segment and the Parking Solutions segment. The Company's management estimates that these three areas of activity are affected by the growing need for application of automation stemming from the factors explained above – on the one hand, and by the state of the global and local economies and their general impact on the various industries – on the other hand.

Additional trends in the global automation market as reflected in the abovementioned market studies are the economic growth and accelerated industrial development of certain geographic regions of the world, such as China, India and other developing countries, which show increased activity in establishing local production capabilities and enterprises and increasing introduction of automation into such plants.

Notwithstanding the aforesaid, the Company is unable to either estimate or quantify the impact of such developments on the results of its operations. For a discussion of other external factors, including specific market risks and their manner of management, see sections 1.23 below. For a discussion of information concerning the general environment and external factors relevant to each operating segment separately, see sections 1.9, 1.10 and 1.11 below.

Part III – Description of the Company's business by operating segments

1.8 Overview – synergy between the Company's operating segments

The Company engages, as stated above, in three business segments: the Products segment, the Systems segment and the Parking Solutions segment. Although the Company operates in each segment separately with regard to policy, decision making, budgets, resources and other inputs, there is synergy between these fields within the Company, as well as an ongoing process of feedback and mutual contribution, primarily in respect of feedback concerning market needs and customers' preferences, technological trends, business opportunities, data on competitors, and other areas. Furthermore, the three segments share the use of multiple infrastructures, as detailed in Part IV below.

1.9 Products Segment

1.9.1 Structure of the operating segment and changes therein

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

1.9.2 Legislative restrictions, regulations and constraints applicable to the operating segment

The manufacture and/or marketing of products in the field of control and automation is subject to various standards in different parts of the world, some of them general in nature intended for the field of electronics and some more specific to the field of control and automation. In this context the relevant standards are mainly EN 61131-2: 2007 that deals with PLC requirements (concerning electromagnetic compatibility and safety aspects), and American and Canadian safety standards (such as the UL/cUL 508 standard and ISA-12.12.01 – Hazardous Locations).

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

For details regarding compliance of the Company's products with these standards and the Company's assessments in this regard, see sections 1.9.21 and 1.9.22 of this report.

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

According to the Frost & Sullivan Report from January 2014, the global PLCs market was estimated at $10.4 billion in 2013 and is expected to reach $14.6 billion by 2018 (an average growth rate of 7.1% per year). According to the Frost & Sullivan Report from April 2011, the global PLCs market was estimated at $8.3 billion in 2010 and is expected to grow to $14 billion by 2017 (an average growth rate of 8.6% per year). Similar figures regarding the annual growth rate appear also in the IMS Report from August 2010 hereinafter: "**IMS Report**"), which estimated an average growth rate of 8% per year.

Most sources similarly identify several trends:

(a) Classification of PLCs by size and properties: The number and type of external devices that can be connected to and controlled by a PLC define its dimensions as:
- Nano PLCs also known as Smart Relays;
- Micro PLCs also known as Compact PLCs;
- Small PLCs and medium PLCs together also known as Modular PLCs;
- Large PLCs also known as High-End Modular PLCs.

As stated in section 1.9.8 below, the Company focuses in the Products field on nano, micro and small PLCs (and does not focus on large PLCS), that have, based on the sources cited above, the highest relative growth rates.

(b) Areas of application: Concurrently with the increasing need for automation as explained above, the global and local economy affect the market, as reflected, *inter alia*, in the different market development rates projected for the coming years in different industrial fields and for different types of customers. Thus, for example, the IMS Report estimates that 54% of global sales are made to machinery manufacturers (of which 10% are tool manufacturers, 10% manufacturers of food and beverage machinery and 10% manufacturers of packaging machines) and 46% of the sales are to end consumers (of which 20% are in the motor vehicle industry, 16% in the services industry and 11% in the chemical industry). The Frost & Sullivan Report from April 2011 (see above) estimated that among key industries, the food and beverage industries accounts for approximately 17.5% of the global industrial PLC market, the motor vehicle industry accounts for 15.2% and the chemical industries accounts for roughly 11.3%. According to this report, the growing industries of solar energy, wind-generated energy and other sources of renewable energy are expected to boost sales of industrial PLCs to these sectors. The report also anticipates a growth in sales of industrial PLCs to the motor vehicle industry, the water and wastewater treatment industry, the chemical industry and the food and beverage industry.

(c) Geographic breakdown: A study of the geographical distribution of sales of PLCs around the world in recent years according to the IMS Report shows that, in general, 46% of the sales take place in Europe, the Middle East and Africa, about 20% in America, about 23% in Asia and the Pacific countries and 10% in Japan. On the other hand, the Frost & Sullivan Report shows that in 2010, about 39.4% of global sales of PLCs took place in Asia and Pacific countries, 24.2% in Europe, the Middle East and Africa, and 23.1% in North America. IHS publications in 2014 show that there is a slowdown in the rate of sales in Asia and the Pacific countries whereas there is a strong growth in the US market in light of the recovery and the overall improvement of the economic situation in the country.

According to the Frost & Sullivan Report, in the past few years the the PLC market has displayed steady growth till now, and the various market surveys presented above, indicate forecasts for continued growth in this market and its expansion into additional areas, accompanied by tough competition, which is also expected to grow and expand into different areas. ARC, in its surveys over the years, has also anticipated that the PLCs market will expand beyond the traditional industry clients (factories and car manufacturers) to providers of overall automation solutions that combine the production lines and the data collection systems in the field, to the organizational data and management systems. Pursuant to this, the Company identifies a trend towards increased utilization of decentralized systems based on smaller PLCs – the focus of the Company's activities. In the Company's opinion this trend arises, *inter alia*, from ongoing pressure on prices of PLCs. The above may, in the Company's estimation, cause a decline in profitability for companies engaged in this field (including Unitronics, although the Company is unable to quantify a possible decline in profitability[1]), resulting from a decline in market prices of PLCs.

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

The PLC market is characterized by frequent technological developments, introduction of new products and technologies, and changes in market needs and requirements. The developments and innovations in the fields of electronics, communications and computers also influence the control and automation industries, including a trend towards miniaturization of PLCs (smaller units that compete in terms of functionality and price with large units from previous generations), expanded use of communications (between PLCs, and between PLCs and the command computers and organizational systems, and between PLCs and smartphones and tablets – using available and widespread communications technologies such as Ethernet, Internet and cellular communications), and development of convenient, user-friendly interfaces including the use of color screens in various sizes and the use of touch screens as a means of man-

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

machine communication in equipment and machinery. The Company designs its products in accordance with these trends, including miniaturization (down to palm-sized products), incorporation of convenient and user-friendly interfaces (such as different-sized color and touch screens) in the body of the PLC, and built-in communications capabilities as detailed in sections 1.9.8.1 and 1.9.10 below.

1.9.5 <u>Critical success factors in the operating segment and changes therein</u>

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

1.9.6 <u>Main entry and exit barriers in the operating segment and changes therein</u>

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

1.9.7 <u>Substitutes for the products of the operating segment and changes therein</u>

The field of industrial PLCs includes PLCs manufactured by different companies, as detailed in section 1.9.8 below. By its nature, a programmable industrial controller requires modification and programming actions that are usually performed by the client or an integrator on his behalf, in order to adapt it to the task it is designated for. It is therefore not possible to point out products that constitute an immediate, direct substitute for the Company's products, and in any event the client has to make adjustments, program, and usually also make electric and mechanical adjustments in order to use other PLCs.

1.9.8 <u>Products and services</u>

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

1.9.8.1 <u>PLCs and expansion units</u>

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 coordinate the range of command, control, and communications operations executed by the PLC. The Company's PLCs also incorporate an integral human-machine interface (HMI) component designed to enable the operator to control the PLC itself, and through it the instruments controlled and monitored by the PLC. This interface may differ from one product series to another in its nature and complexity, and it includes a data display (alphanumeric and/or graphic), a programmable keyboard and/or a regular keyboard and/or a touch screen. The PLC communicates with external components (such as the production devices themselves, engines or sensors) by means of built-in physical connections ("sockets" of sorts, similar to phone or computer sockets) intended for data input and output. The input/output capabilities of PLCs (number and type of connectable devices) define their dimensions, as specified in the table below

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

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

The 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 (up to 2,000 in the UniStream™ product range), using external expansion units and communications networks.

The main series of PLCs and expansion units manufactured by the Company include alpha numeric nano and micro PLCs (M90 / M91 and Jazz® series) and different-sized graphic PLCs (Samba™, Vision ™ and UniStream ™ series) with monochromatic or color touch-screens, external expansion and other accessories (such as cables, adapters, and programming kits).

The Company's PLCs are positioned as advanced technology products among the target audience - control engineers and machine builders. A validation of this is that four different models of the Company's products have been awarded the "Engineers Choice Award" by "Control Engineering" magazine (www.controleng.com). This is an annual contest run by one of the most prestigious magazines in the United States in the field of controllers (with above 140,000 subscribers) during which the readers themselves select products divided into several categories from a list of products launched in the same year. In 2015, for example, a Samba Series PLC was selected as the winner in the "Hardware - Integrated HMI controllers" category.

1.9.8.2 Software

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 main software programs of this type are U90™ and VisiLogic® which serve PLCs from most of the PLC series of the Company and the Company's UniLogic™ software which only serves PLCs from individual series of the Company. These software programs operate in the Microsoft Windows environment and are designed to also permit those without professional programming skills to program, in an intuitive and accessible manner, both the operating interface of the PLC itself, at the operator's convenience, and the PLC tasks with respect to the system components in the machine or equipment that the PLC is supposed to control. These software programs enable access to programming tools, including self-design or import of graphic icons, text messages, menus in various formats, and adaptation of the display to the varying conditions of the process being controlled (e.g. changing displays according to progression of manufacturing process along an industrial production line).

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

1.9.8.3 Trends and Changes – Products

The Company's products are mainly focused on the micro and nano PLCs sector. This segment is characterized in the market surveys described above as the market segment with the highest growth rate. At the same time, this market segment is highly competitive and prices of products therein are steadily declining (see also section 1.9.3 above).

The Company invests in the development of new products designed to meet the changing needs of customers in the PLC market. These products replace and are intended to continue replacing the Company's older products and are also intended to open new opportunities and markets for the Company.

1.9.8.4 Services

Services of the Products Department comprise primarily technical support for Company products, and are delivered by a technical support team offering pre-sale support services for purchasing Company products (mainly consulting for customization of products to each customer's specific needs), post-sale training and technical support for assimilating the use of the products and/or troubleshooting. Calls to the support team usually originate from the Company's distributors (see section 1.9.11.2 below), from direct end users and from indirect end users (who purchased the Company's products from distributors in Israel or abroad). These calls are processed by support staff, with the involvement of the Company's lab, development and marketing staff as necessary.

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

1.9.9 Revenue breakdown and profitability of products and services

The contribution to the Company's profitability by the different series of the Company's major products shows no material difference between that of one series and another. The changes in the profitability of the Company's Products segment in the years 2012, 2013 and 2014, stem largely from changes in the exchange rates of the main sale currencies and raw materials against the shekel throughout these years, from different (although not materially different) profit margins of several transactions, coupled with changes in manpower inputs during these periods.

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

	For the year ended December 31		
	2014	**2013**	**2012**
	NIS, in thousands		
Revenue from products (*) (amount and percentage of total revenue)	(63%) 108,442	(61%) 95,449	(68%) 96,375
Gross profit (amount and margin)	(43%) 46,885	(**) (39%) 37,498	(**) (43%) 41,068

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

(**) Including development costs assigned to the segment, see sector 2.2.2 below.

1.9.10 New products

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

These development efforts require the allocation of significant resources, primarily in the area of human capital, as well as the study and assimilation of new platforms and technologies. For information on the Company’s development expenditures, see section 1.9.16 below.

1.9.10.1 Customers

The direct customers of the Products Department are mainly distributors bound to the Company by distribution agreements (see section 1.9.11 below). The end customers are generally manufacturers of PLC-controlled industrial machines in a range of various industries, including the plastics, textile, vehicle spare parts, food and petrochemical industries and others. These machines are controlled by PLCs and are 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. In general, the Company has no direct contact with end customers, who are in direct contact with the various distributors for customization, installation, warranty, and the like.

1.9.10.2 Major Customers

During the reporting period, the Company did not have a major customer in the Products segment.

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[2] The information regarding the development of products with dimensions that are not within the Company's existing product range is forward-looking information. The main data serving as a basis in this subject are the Company's development plans, which are based, *inter alia*, on the analysis of market surveys as set forth in sections 1.7 and 1.9.3 above, the analysis of market requirements and customer preferences, as expressed in the Company's firsthand contacts with the markets, technological feasibility, the Company's assessments regarding the costs of the research and development that would be required to finance the execution of the developments, and also the tough competition existing in the industry, as specified in this Report. The main factors which could cause this information not to materialize are the rates of investment that would be required in these operations, which could significantly overrun the Company's budgets in these subjects, limitations in the ability to commercialize these technologies at competitive market prices, or at all, the absence of the development of markets and a consumer culture suited to using the technologies developed, and the superior financial and technological means available to a considerable part of the Company's rivals, and all of the foregoing in addition to the general risks as set forth in section 1.23 of this Report.

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

1.9.11 Marketing and distribution

The Company's products and services are marketed and sold through the Company's internal marketing network and via Unitronics Inc., as well as through a chain of distributors comprising 165 distributors (of which 110 are in the United States) in about sixty countries (including Israel) across Europe, Asia, South and Central America, North America and Africa.

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

1.9.11.2 Distributors: The Company's agreements with its distributors generally confer exclusive distribution rights in defined territories (subject to the Company's right to sell by itself and/or through subsidiaries and/or pursuant to comprehensive agreements for setting up systems), for limited periods (usually one year), renewable subject to meeting specific minimum sales or at the Company's discretion in the event the distributor fails to meet said minimum sales. The distributors purchase Company products based on an annual purchase forecast provided by them in advance, usually according to the Company's price list, and sell them at their own discretionary prices. The Company generally grants its distributors 30 to 90 credit days, and from some requires collateral such as a bank guarantee or letters of credit (except in the United States). These agreements may generally be terminated at any time by a 30 to 90 day notice of either party, and are generally governed by Israeli Law and subject to the jurisdiction of the courts in Tel Aviv and/or to an arbitration mechanism for the settlement of disputes.

The Company does not pay commission to its distributors, and the latter generate their profits from the difference between the purchase price and the selling price to the end customer. The Company suggests a recommended selling price to the distributors, but does not require them to charge these prices. The Distributor is generally required to provide end users with a warranty period of 24 months, backed by the Company's commitment thereof for the same period of time. The Company's distributors may not return products. Under the products' warranty, non-functioning products during the warranty period are either repaired or replaced. It should be noted that in actuality, the quantity of the replaced products is not material (for details on revenue recognition in the Products segment, see Note 2 section (q)(1) to the financial statements).

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

1.9.12 Order backlog

As of December 31, 2014, the Company had an order backlog of NIS 8,927 thousand in the Products segment and as of March 8, 2015, the Company had an order backlog of NIS 10,470 thousand in the Products segment, as detailed below.

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

Period of recognition in the expected income	**Product order backlog as of 8.3.2015 (closest possible date to date of this report) NIS thousands**	**Product order backlog as of December 31, 2014 NIS thousands**	**Product order backlog as of December 31, 2013 NIS thousands**
For Q1 2014	---	---	4,723
For Q2 2014	---	---	2,019
For Q3 2014	---	---	589
For Q4 2014	---	---	3,228
For 2015	---	---	59
For Q1 2015	1,506	5,028	---
For Q2 2015	2,417	637	---
For Q3 2015	1,065	243	---
For Q4 2015	3,506	2,059	---
For 2016	1,976	960	---
Total	10,470	8,927	10,618

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

It should be clarified that the data relating to recognition of revenues from backlogs are estimates only, relying on past experience and planned schedules, in line with the different orders. Changes in these basic assumptions, which led to the said estimates, could significantly change the Company's estimation with regard to backlog revenue recognition, compared to the data shown above.

1.9.13 Competition

To the best of the Company's knowledge and based primarily on the IMS Report and the Frost & Sullivan Report, over 70% of the global market of industrial PLCs is ruled by six major players and in addition there are over 30 companies with an annual turnover of more than US$ 10 million. One can define three categories of major competitors in the market:

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

B. Large multinationals dealing primarily in PLCs. Companies included in this group: B&R Industrial Automation, ABB, Yokogawa Corp., Automation Direct/Koyo, Bosch Rexroth AG, Toshiba International Corp., Philips Components and Festo Group.

C. Smaller companies operating in limited geographical regions or dealing in special niche products. This group includes such companies as: Honeywell Safety Management Systems, Kim Controls, Horner Electric APG, and PILZ. In the Company's estimation, its activity in the products segment falls into this category. The Company knows of no other Israeli companies in this category.

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

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

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

1.9.14 Production capacity

The Company manufactures its products primarily through subcontractors. Subcontractors are responsible for most of the PLC component placement, final assembly, testing, calibration and product packaging activities, and in some cases are also responsible for purchasing components (hereinafter: the “**Turnkey Method**”). In addition, the Company itself assembles, using its staff and its facilities in Airport City, a certain portion of the components of the electrical circuits, and for some of the products, it performs the final assembly of the product, its electrical testing, calibration and packaging. The use of subcontractors to carry out the production is also intended to maintain the possibilities for growth and flexibility in view of the high production capacity, using existing subcontractors and the ability to add subcontractors as needed (subject to the learning and assimilation curve described in this section below). As for production operations within the Company, as of the date of this report most of the production capacity is being utilized, but the Company is able to increase its production capacity for these activities as needed, given the possibility of assigning these tasks to unskilled manpower, which is, therefore, relatively available and requires only a short training period.

1.9.15 Fixed assets, real estate and facilities

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

1.9.16 Research and development

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

	For the year ended December 31		
	2014	**2013**	**2012**
	NIS thousands		
Payroll and benefits	9,741	9,752	10,033
Subcontractors	1,898	1,867	2,871
Other expenses	1,886	2,068	2,372
Less capitalized expenses that were recognized as an intangible asset	(10,567)	(10,743)	(11,414)
Total	2,958	2,944	3,862

Overall, the Company spent NIS 13,525 thousand during the reported year (of which NIS 10,567 thousand were recognized as intangible assets) for the development of products and technologies, as specified in section 1.9.10 above. The Company estimates that in 2015, total development expenses in the Products segment will not change materially compared to actual development expenses in this segment in 2014[3].

From 1992 to 2003, the Chief Scientist at the Ministry of Industry, Trade and Labor (hereinafter: the **"Chief Scientist"**) participated in the funding of the Company's R&D programs under the Encouragement of Industrial Research and Development Law, 5744-1984 (hereinafter: the "**R&D Law**"). Subject to the support received for the financing of the Company's R&D plans (for further details see section 1.9.20 in Chapter A of the periodic report for 2012), the Company must comply with the provisions of the R&D Law, and the regulations and rules by virtue thereof, which include paying royalties to the Chief Scientist at a rate of 2% to 5% of sales of products developed with

[3] The information concerning the estimated development expenses in the Products segment is forward-looking information. The principal data which serve as a basis for this information are the Company's development programs which are based, *inter alia,* on analysis of market surveys as detailed in sections 1.7 and 1.9.3 above, analysis of market needs and consumers' preferences as reflected in the Company's direct contacts with the markets, technological feasibility, the Company's estimates regarding R&D costs as well as the Company's estimates with respect to the revenues from this segment. The principal factors which may prevent this information from materializing are the actual revenues from the sale of products in 2014, the investments required for such activity, which may significantly exceed the Company's budgets for such matters; restrictions on the Company's ability to commercialize these technologies at competitive market prices or at all; absence of developed markets and a consumer culture suitable for using the technologies being developed; as well as the superior financial and technological means available to a major portion of the Company's competitors – all this in addition to the general risks outlined in section 1.23 of this report.

the Chief Scientist's assistance, up to repayment of the total grants (and with respect to grants received starting from January 1999 – plus interest at LIBOR rate); receiving approvals regarding changes in holdings and controlling means in the Company; refraining from overseas manufacturing of products based on technology developed with the assistance of the Chief Scientist, and from the transfer of such technology overseas. Total grants approved for the Company based on the R&D programs amounted to NIS 2,473 thousand in respect of which the Company paid to the Chief Scientist up to December 31, 2014, a total of NIS 380 thousand in royalties. Liabilities recognized in the financial statements in respect of grants received from the Chief Scientist, as of December 31, 2014, totaled NIS 159 thousand, attributable to programs in respect of which, in management's estimation, royalties are likely to be paid. As of the date of this report, the Company has met its obligations to the Chief Scientist.

1.9.17 Intangible assets

As stated, the Company has recognized some expenses relating to the development of its products and technologies (as specified in section 1.9.16 above) as intangible assets. In addition, the Company safeguards its intellectual properties by registering patents, although it believes that in a world of rapid technological changes, its ability to develop and launch new state-of-the art products in a relatively short period of time, facilitates its success and penetration into markets, such that the protection of its intangible assets and intellectual properties is of lesser importance. For details on intangible assets related to this operating segment, see section 1.14 below.

1.9.18 Human Capital

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

1.9.19 Raw materials, suppliers and subcontractors

1.9.19.1 The Company's products may incorporate about 30-350 mechanical and electronic components, including electronic circuits and their components, keyboards, display screens, and others. About 95% of the components in most of the products are standard (off-the-shelf) products, manufactured in Israel and abroad. Some 5% of the components in most of the Company's products are custom made for it in accordance with a specification and/or plan, mainly plastic casings, keyboards, printed circuit boards (PCBs), various connectors, metal parts, touch screens and specific LCD displays. Although these components are of major importance in Company products, they may be ordered from several suppliers/ manufacturers in Israel and overseas, usually without any need for product adaptations, and consequently, there is no dependence on a single supplier/ manufacturer. However, in some cases (about 4% of off-the-shelf components in most Company products), although they may be purchased from several suppliers, their replacement by new suppliers is liable to cause delays (of several weeks) resulting from the alternative supplier's learning and assimilation curve with respect to the Company's needs. For particular products, where the replacement of a supplier may lead to a longer delay, backup stocks with a 3-4 month supply are maintained (whether they are purchased directly by the Company or for the Company by a subcontractor as part of the turnkey production arrangement), the purchase quantities for these stocks being financially immaterial.

The Company is dependent on several manufacturers which specialize in the production and supply of a small number of items that represent about 1% of the components in most of its products (representing immaterial purchase quantities from a financial standpoint, in the years 2012, 2013 and 2014), although these are off-the-shelf components that include processors and communication components that could be purchased from suppliers in or outside Israel (primarily Infineon, Atmel, WizNet, Lattice Semiconductors and STMicroelectronics). Although such components may be installed in the Company's PLCs even if they are made by other manufacturers, this might involve structural and functional changes and various modifications of the hardware and software that are liable to cause delays and customizing costs. In order to reduce this dependence, the Company enters into annual orders arrangements and in a few cases, into minimum stock retention agreements, with several different suppliers, in order to ensure availability and regular supply of these components. The Company has no sole supplier of raw materials from whom it purchases 10% or more of the annual cost of its raw materials and subcontracting services.

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

1.9.19.3 The Company generally has no written agreements with suppliers of raw materials, it is not bound by framework arrangements with them (save for annual orders and certain minimum stock retention agreements as detailed below) and it orders materials as needed, on an *ad hoc* basis, generally against purchase orders only. The commercial terms generally applicable to the raw materials suppliers are open credit without guarantees, payment at terms of net 60 EOM (after approval by acceptance control), predefined lead time (sometimes including an option for the Company to change quantities and/or schedules), prices subject to volume discount, delivery and transport at the supplier's expense and the supplier's warranty for replacement of goods, at its expense, in the event of nonconformity or quality problems.

The Company enters into a minimum inventory retention agreement with certain suppliers, pursuant to which the supplier undertakes to keep an inventory at a certain percentage of the Company's annual consumption (adjusted on a quarterly or a monthly basis), exclusively earmarked for supply to the Company at set prices, without any obligation of the Company to purchase inventory. Under these agreements, the Company is obligated, in only a few cases, subject to certain exceptions, to purchase the minimum stock, for amounts that are financially immaterial to the Company, even if not ordered by the end of the agreement period. Several of these agreements are unlimited in time, and the termination of activity thereunder in respect of particular items is subject to prior notice.

1.9.19.4 The Company is party to two non-exclusive agreements with manufacturing contractors for turnkey work (hereinafter: "**Manufacturing Contractor A**" and "**Manufacturing Contactor B**"), through a separate agreement with each Manufacturing Contractor who is an unrelated third party to the Company or interested parties therein. (For convenience sake only, Manufacturing Contractor A and Manufacturing Contractor B shall hereinafter be collectively termed in this section as: the “**Agreement**” or the “**Agreements**”). Under the agreement, the Manufacturing Contractor serves as a subcontractor for the manufacture and supply of inventory of the Company's turnkey products and/or electronic assemblies. Under the agreement, the Manufacturing Contractor performs most of the component purchases, placement and assembly followed by the testing and packaging of the finished products, in accordance with the detailed instructions of the Company, and under the supervision of the Company, and in accordance with detailed purchase orders based on periodic forecasts relayed to the Manufacturing Contractor which are updated regularly. As part of its obligations, the Manufacturing Contractor provides a 24-month warranty on his work, insures its obligations under the Agreement, while the related intellectual property rights connected with the product are retained by the Company. Payment for the products is based on fixed amounts dependent on the volume of the ordered work and paid on a +30 day basis. The Company is entitled to terminate the agreement, for any reason, by giving 90 days' prior written notice to the Manufacturing Contractor. Under the agreements with the Manufacturing Contractors the Company sells raw materials to the Manufacturing Contractors for the purpose of manufacturing for the Company. For details, see Note 18 to the financial statements in Section C below.

The Company's payments to Manufacturing Contractor A accounted for 13% and 10%, in 2013 and 2014, respectively, of the total expenses of the Company for raw materials and subcontractors during these periods. The Company's payments to Manufacturing Contractor B account accounted for 23% and 24%, in 2013 and 2014, respectively, of the expenses of the Company expenses for raw materials and subcontractors during these periods.

The Company is not dependent on certain manufacturing subcontractors and the Company may hire other additional contractors for this purpose. However, the replacement of an existing subcontractor may involve delays arising from the learning curve and the implementation of the Company's needs and/or the use of specific manufacturing production components tailored to the needs of the Company (for example, the molds for the casting of the plastic casings of the PLCs). The Company believes that the replacement of the said subcontractor is not expected to result in additional material costs to the Company.

1.9.20 Working Capital

1.9.20.1 Inventory

The Company holds, whether itself or through its production contractors, on an ongoing basis about 70-150 days of components and raw materials inventory to meet forecast requirements. In addition, the Company holds a finished products inventory for supplying current orders for some 45-90 days. The Company’s policy is generally to hold a finished products inventory based on actual orders or internal forecasts regularly made and updated by the Company. However, and as necessary, the Company may deviate from this policy, mainly when preparing for extraordinary events or in response to the behavior of raw materials markets in the world (for example, in cases of concern over possible temporary shortages of electronic components throughout the world and/or limited allocations of components by the component manufacturers in certain cases of excess demand). The Company manages the production processes, purchasing of raw materials, raw materials inventory and finished products inventory through a general management software program that concurrently serves the Company's procurement, production, and inventory systems, and this alongside financial management and accounting (ERP – Enterprise Resource Planning). From time to time the Company examines new means of inventory maintenance, with a view to increasing the finished goods inventory held by the Company, and shifting this inventory in some of the markets to sites closer to the distributors, in order to assist the distributors and customers and to make Company products more accessible.

1.9.20.2 Warranty: The Company typically provides a 12-24 month warranty for its products. The Company does not make provisions for warranty due to immateriality (absence of demands and/or demands of insignificant sums).

1.9.21 Environmental issues, risks and management thereof

The Company's activity in this area does not involve environmental risks as the term is defined in Section 28 in the First Schedule to the Securities Regulations (Details of the Prospectus and Draft prospectus – Structure and Form), 5729-1969. However, as stated in section 1.9.2 above, the manufacture and marketing of electronic products is subject in different countries to directives that address the use of certain materials in the manufacture of electronic products and the treatment of electric and electronic equipment waste, including arrangements pertaining to the issue of electronic waste in the EU (the WEEE (Waste Electrical and Electronic Equipment) and the RoHS (Restriction of Hazardous Substances) Directive which restrict the use of certain substances in electrical and electronic equipment marketed in Europe, as well as legislation in accordance with the provisions of Israeli law (Regulation of the Treatment of Packaging Waste Law and the Law for Environmental Protection for the Environmental Treatment of Electronic Equipment).

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

[4] The information concerning Company preparations for complying with the WEEE directive is forward-looking information. The principal data which served as a basis for this information are: developments currently known to the Company regarding the directive's implementation, the technical steps needed for its implementation, and the Company's collaboration with its distributors in this matter. The principal factors which may prevent this

non-implementation of the WEEE Directives and is unable to quantify this exposure, insofar as it exists.

The Company designs its products in compliance with the aforementioned RoHS 1 Directive of the EU, and has spent immaterial amounts for this purpose; the Company estimates that, as of the date of this report, the Company's products are generally compliant with these provisions. The Company estimates that it does not expect to spend material amounts in the upcoming year and/or in subsequent periods for the purpose of compliance with the requirements of these directives[5].

The law for regulation of packaging waste treatment sets recycling targets according to the type of material and the year of recycling, all regarding manufacturers with product packaging weights that exceed a certain threshold per year. To the best of the Company's knowledge, the total weight of packaging of the packaged products it sells per year does not reach the threshold set by law, and therefore, is not subject to the obligations thereof and the Company has advised the Ministry of Environmental Protection of the aforesaid. The Company will continue to monitor the total weight of packaging of the packaged products it sells each year to ensure compliance with the law.

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

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information from materializing are the diverse implementations in the various countries, changes to the directive's provisions and/or interpretation or lack of cooperation on the distributors' part in realizing the implementation, and the means necessary for the directive's implementation, for which there is no assurance that they will be available to the Company at all or at the scope required for implementation.

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

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

1.9.22 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.

In accordance with the requirements of EU directives, EC/2004/108 (a directive pertaining to emission and product immunity in the electromagnetic environment) and EC/2006/95 (a directive pertaining to safety aspects, including fire, temperature resistance and electric safety), the Company's products, which are defined as PLCs, must meet the standards defined in sections 8 and 11 of the EN 61131-2: 2007 standard, which deals with requirements applicable to such products. Pursuant to the provisions of these directives, the Company labels most of its PLCs of the series relevant to these directives with a CE mark, which indicates that the PLCs comply with the requirements of the directive.

Most of the Company's PLCs and their external expansion components also comply with American requirement standard UL/cUL 508 standard (safety aspects, including fire, temperature resistance, and electrical safety) and some comply with the requirements of the UL Hazardous Locations ISA 12.12.01 standard (work in a dangerous or explosive environment). Accordingly, the Company labels these products, and products largely based on them, with the UL/cUL mark.

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.

The United States Securities and Exchange Commission regulations regarding "conflict minerals" designated to reduce the violation of human rights requires public companies listed on American stock exchanges to report the use of certain metals. These regulations are not directly applicable to the Company, however, they be applicable to part of its customers, and therefore the Company is following developments in this matter and studying the aspects and ramifications of these regulations, inter alia, by consulting with advisers, attending conferences and studying up-to-date professional material. In addition, the Company turned to most of the suppliers and manufacturers in the chain of supply, in order to obtain declarations stating their compliance with these regulations. As of the date of this report, the Company estimates that it will not spend material amounts on compliance with the provisions of these directives over the next year[7].

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[7] The information concerning Company preparations for compliance with the "conflict minerals" regulations is forward-looking information. The principal data which served as a basis for this information are: the

1.9.23 Business objectives and strategy

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

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

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

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developments known to the Company today regarding the implementation of the regulations, the technical steps required for their implementation, and the Company's cooperation with its suppliers and manufacturers in this matter. The principal factors which may prevent this information from materializing are: changes in the provisions and/or interpretation of the regulations, and delays in compliance of the component and assembly vendors with these regulations.

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

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

1.9.24 Development forecast for the coming year

Except for 2013, the Products segment has shown a continuous growth in revenue during the past five years. In 2013, there was a slight drop in revenues from the products segment compared to 2012, stemming primarily from an even higher decrease in the rates of the main selling currencies against the shekel, and in 2014 the Product segment returned to a growth in revenue. To continue the growth trend in its operations in the products sector, the Company will be required to invest great amounts in R&D and marketing, so as to be able to offer existing and prospective customers more competitive and efficient products, designed to provide a suitable response to those offered by its competitors. However, there is no assurance that making large investments in development and marketing as aforesaid, will increase or maintain the Company's current pace of sales. For details on the Company's estimates regarding development expenses expected in the products segment in 2015, see section 1.9.16 above.

1.10 Systems Segment

1.10.1 Structure of the segment and changes therein

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

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

The activities of the Company's Systems Department and certain of the components of the systems in the construction of which it engages are designed in accordance with various standards, including standards on the subject of earthquakes, wind resistance, lifting devices, electrical installations, safety standards and transport standards. For further details, see section 1.10.17 below.

1.10.3 Changes in scope of sector operations, its profitability, developments in the segment's markets and changes in the characteristics of its customers

In the Systems segment, the Company competes for each project against several companies from Israel and international companies that are leaders in their field. The market in Israel is relatively small and several competitors contending for the few projects executed in this field every year. Economic growth and a relative improvement in the economic situation in Israel, together with the increasing complexity of business activities which the automated logistics systems are designed to handle, are expected, in the Company's opinion, to increase the number of projects carried out in Israel in this area, including the number of projects to be implemented by the Company[8].

The Company's installations base in Israel, which the Company estimates to be wide as compared to its competitors, could assist the Company in providing more efficient service and technical support, and advance its prospects of being chosen to implement new projects of this type in the future.

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

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

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

In the Company's opinion, the major entry barriers in the Systems segment include the knowledge and experience required for analysis and design of logistics systems within organizations; the duration of sale processes for systems due, among other things, to the conservative nature of the target markets for such systems; complex software systems for warehouse and parking facility management and control technologies for conveying systems within such systems; and the required support and maintenance infrastructure in order to provide the level of service and availability required of such systems. The Company estimates that the major exit barriers in the Systems segment are the

[8] The information concerning a possible growth in the number of logistic systems projects to be implemented in Israel, including the number of projects to be implemented by the Company, is forward-looking information. The principal data which served as a basis for this information are: the assumption that economic growth and a relative improvement in the economic situation in Israel, together with the increasing complexity of the business activities which the automated logistic systems automated parking systems are designed to handle, will impact on the demand in this field. The principal factors which may prevent this information from materializing are: lack of improvement in the economic situation in Israel and/or the world (or insignificant improvement) and/or failure of businesses to make investments, in general, and investments in automated logistic systems, in particular, notwithstanding a relative improvement in the economic situation, *inter alia*, for reasons of cutting expenses and/or changes in inventory maintenance and/or management policy and/or delay or absence of market recognition of the advantage of automated logistic systems. Also, insofar as this information pertains specifically to the Company, other factors may prevent such information from materializing, such as the Company's inability to compete with its rivals, and the other risk factors enumerated in section 1.23 below.

commitments of companies operating in this sector to complete system construction projects, in accordance with signed contracts, and their commitment to provide service for the constructed systems pursuant to annual service contracts.

The Company estimates that the key success factors in the Systems sector include the knowledge and experience accumulated in the area of design and construction of such systems; the range of solutions on offer that meet market needs and trends; the functional reliability of the various components including the software and control systems being offered and the high level of service and support that build-up a reputation and customer loyalty.

1.10.6 Products and services

The Systems segment does not include products (other than custom software for management of logistic systems, as explained below), but rather is focused on delivering various services, primarily design, construction and maintenance services as part of automation, computerization and integration projects of automated production and/or logistics systems, mainly automated warehouses and distribution centers (as detailed below).

The Company develops and markets, as a single package, both as an integral component of the logistics systems which it sets up, and as a stand-alone product, warehouse management software which is marketed under the name UniStock™, designed to allow control, command and management of the manual and/or automated warehouse systems (software which is referred to in the industry as Warehouse Management System – WMS), including the management of inventories, orders, issues and distribution, and also the operation and synchronization of the movements of automated conveyance systems and the handling of terminals (software which is referred to in the industry as Material Flow Control – MFC).

These software packages, which operate in the MS Windows environment and which were developed using the DotNet technologies, client–server architecture and/or website interfaces (web-based and also web services) are planned to provide support in several languages (including Hebrew) and to communicate with ERP systems or organizational management or billing systems. These software programs may be installed and applied as is, just like any other application software, without requiring any changes to the software in order to adapt it to any unique needs, however, they may also be customized to meet defined and special needs of each customer.

1.10.6.1 Automated production and/or logistics systems

The main components of these systems include the following: (a) Storage and retrieval components (a mechanical controlled and computerized system, generally comprising dedicated customized cranes installed on dedicated rails, that perform the storage, retrieval and transport tasks); (b) A shelving system installed along either or both sides of the crane rails; (c) Conveying systems for transporting the loads to and from the automated storage system; (d) Material handling systems, designed to perform missions such as sorting, gathering, palleting, etc; (e) High-speed automated gathering systems for small items; (f) Command and control systems for the mechanical components of the system, including PLCs, sensors and control software. Sometimes these components also include infrastructure components, such as foundations, shell, ceiling and other structural elements.

In recent years, these services have usually been provided to customers in Israel (see section 1.10.8 below). The Company generally provides these services as a chief contractor, in projects in which it serves as the integrator of all the system assemblies (shelving, conveyors, cranes, etc.), electrical systems, installation of the PLCs, the software and hardware, under a direct contract with the customer-user. In such cases the Company contracts with subcontractors for the execution of tasks related to the system assemblies, other than the software and PLCs, which are directly handled by the Company. In certain cases the Company operates as a subcontractor for specified tasks only, mainly those related to the management software, the electrical systems and the supply and installation of PLCs in the system for which service is provided.

The services of the Systems Department include the design and engineering of the systems, construction of new systems and/or upgrading and servicing of existing systems, up to the stage of commercial operation. After this stage, the Company also offers maintenance services for these systems based on framework agreements or on service calls (where contracting for the provision of maintenance services is separate, and thus the consideration for these services is not part of the consideration for the installation of the systems themselves). The Systems Department also markets the Company's management software - the UniStock™ (WMS) software programs, which are marketed under user licenses, mainly within the framework of projects for the construction of systems as described in this section.

1.10.6.2 Trends and changes

The Company's services in the automated logistics systems sector have in recent years focused mainly on the Israeli market. The Company has no statistical data and/or market studies pertaining to this field in Israel. Based on its recent years' experience in this market, the Company believes there is a trend of increasing penetration of these technologies into various organizations in Israel, with the growth in the number of automated warehouses and logistics centers reported to have been installed in the Israeli market in recent years providing, in the Company's estimation, an indication of this trend. The Company estimates that various macroeconomic considerations, including the cost of land, manpower costs, transportation considerations and the distance of the distribution centers from population centers, could strengthen the penetration of automated logistics technologies in the Israeli market. One of the significant characteristics of this activity is the relatively large financial scope of a limited number of orders for what is characterized as one-off services. This creates a high exposure to volatility of sales volumes and profitability in the Systems sector (in line with changes in the pace of progress), and in general, to the influence of a relatively small number of projects slated to be implemented at any given time.

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

The Company is in various stages of exploring possibilities for joining other projects for the construction of automated warehouses in Israel and worldwide, which have not yet matured.

1.10.7 Revenue and profit breakdown

The bulk of the revenues from this activity derive from customers entering with the Company into onetime transactions for the purpose of constructing one system only. The contribution to the profitability of the Company's projects in the Systems sector varies from one transaction to another, especially in accordance with the Company's status as a principal contractor (which is usually characterized by a higher financial value and lower profitability, mainly due to the need for subcontractors) or as a subcontractor (which is usually characterized by a lower financial value and higher profitability, mainly due to the use of its own resources), and on the particular technical and functional requirements of each specific transaction, as well as on the results of negotiations with the entities ordering the service in each particular case.

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

	For the year ended December 31		
	2014	**2013**	**2012**
	NIS, in thousands		
Systems (scope and percentage of general revenues)	(22%) 37,835	(35%) 55,096	(31%) 44,684
Gross profit (loss) (amount and margin)	(15%) 5,559	(11%) 5,907	(-11%) (4,850)

1.10.8 Customers

The direct customers of the Systems Department are generally the end user, in most cases industrial and/or logistics businesses, generally in the private sector (although in a few cases these are customers from the public sector, including the defense forces, government companies or local authorities), that need an automatic warehouse, automatic dispatch systems and/or automatic logistics centers, and which contract with the Company for acquiring a single system. Customers of the Systems Department generally retain the Company's services for designing a single new automatic system and/or constructing a system at the customer's site and to provide services and support for the system after it is handed over for commercial use. In certain cases the Company is retained for the servicing, improvement, upgrading, or enhancement of an existing system at the customer's site (installed by the Company or by third parties). The services of the Systems Department are currently provided mainly in Israel, to customers from numerous sectors, including food processing, pharmaceuticals, import/export warehouses, logistics centers, etc. In some cases the party contracting with the Company is the chief contractor hired by the end user to integrate an entire system, who subcontracts to the Company to perform specific tasks only, such as the design of the system or the installation of PLCs in the system. The Israeli customers of the Company's logistic systems segment include the Strauss Group, the Israel Electric Corporation, Graffiti, Rafael, Caesarea Electronics, Maman, Teva, Tnuva, Maadanot, Coca Cola Israel (The Central Bottling Company Ltd.), Leiman Schlissel, Home Center, Frenkel CD, Shalem Packaging Products, Pelephone Communications Ltd, Scoop Metals Ltd, Colmobile Ltd, the Israeli Air Force, the Israel Aircraft Industry, Klil Industries Ltd., Clalit Health Services, a Defense Ministry facility, Intel and others.

The services of the Systems Department are provided pursuant to customer-tailored agreements, and generally include a list of defined and detailed tasks, technical and functional specifications which the system being constructed will be required to meet, timetables (generally ranging from 9 to 18 months for setting up the system, depending on its complexity and other factors, which vary from case to case) and installment payments according to the progress in work. Under these agreements, the Company is generally required to provide guarantees (mostly bank guarantees) to secure performance of its obligations. As of the date of the Report, the Company provided bank guarantees as aforesaid for a cumulative sum of NIS 5 million. Within this framework the Company is obligated, under letters of undertaking

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

<u>Major Customer:</u> 10% or more of the Company’s revenues for the periods detailed below derives from customers ordering automated systems that entered into a one-off transaction with the Company, whose termination, including under the terms stated therein, without being replaced by new customers making purchases on a similar scope, could have a material adverse impact on the Company's revenues.

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

	For the year ended December 31					
	2014		2013		2012	
	% of total revenues					
	Sales of the Systems Department	Total Company Sales	Sales of the Systems Department	Total Company Sales	Sales of the Systems Department	Total Company Sales
Major customer A	-	-	12.6	4.4	47.2	14.8
Major customer B	48.8	10.8	42	14.8	11.5	3.6
Total sales to major customers	48.8	10.8	54.6	19.2	58.7	18.4

Agreements with major customers: Below are the major terms and conditions of agreements between the Company and major customers, the revenues from which account for 10% or more of the Company's consolidated revenues in the aforementioned periods, in addition to the general terms and conditions applicable to such agreements as stated in section 1.10.8 above:

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

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

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

The Company recognizes revenues from this project in its financial statements based on the percentage of completion method, with the percentage of completion determined based on the completion of engineering stages in the Project.

1.10.9 Marketing and distribution

In the Systems segment, in-house marketing and sales teams operate in Israel, comprising a number of employees handling relations with prospective customers, responding to tenders, preparing price proposals, promoting customer relations and locating business opportunities in Israel and overseas, with assistance from the Company's network of distributors as necessary (for details of the Company's distributor network, see section 1.9.11.2 above).

1.10.10 Order backlog

Selling the Systems Department's services involves a long sales cycle, which requires considerable time and resources, including participation in tenders and presentations, along with other participants, with the services rendered over a period of 9-18 months, depending on system complexity. Below are data on binding agreements for the Systems Department's services in the periods as follows:

Revenue recognition period	**Agreements to deliver Systems Department services as of 8.3.2015 (the closest possible date to date of this report)**	**Agreements to supply Systems Department services as of December 31, 2014**	**Agreements to deliver Systems Department services as of December 31, 2013**
	NIS, thousands		
For Q1 2014	---	---	9,787
For Q2 2014	---	---	6,605
For Q3 2014	---	---	2,638
For Q4 2014	---	---	3,574
For 2015	---	---	2,000
For Q1 2015	7,916	7,916	---
For Q2 2015	3,708	3,708	---
For Q3 2015	3,642	3,642	---
For Q4 2015	2,481	2,481	---
For 2016	2,908	2,908	---
Total	20,655	20,655	24,604

Differences in reported order backlogs between 2013 and 2014 stem from the receipt of orders for the execution of new projects in the ordinary course of the Company's business, on the one hand, as well as from changes in milestone schedules of current projects, on the other hand.

It should be clarified that the data relating to recognition of revenues from backlogs are estimates only, relying on past experience and planned schedules, in line with the different orders. Changes in these assumptions, which led to the said estimates, could significantly change the Company's estimation with regard to backlog revenue recognition, compared to the current data shown above.

1.10.11 Competition

The construction of automated logistics systems involves the integration of different disciplines including, among others, mechanical and engineering design, construction (including foundations, shell and other construction components), supply and installation of mechanical conveying systems; design, development and installation of electrical and control systems; design, development, and installation of software systems; and coordination between all the entities that take part in the construction of the system. In the logistics systems sector in Israel, the Company competes with several Israeli and multinational companies that offer services of design, installation, upgrading and maintenance of industrial systems, mainly automated warehouses and logistics systems, including companies such as Dematic, Knapp, Swisslog, SSI Schaefer and System Logistic. In the field of warehouse management software systems the Company has several Israeli competitors, including a company from the Matrix Group and in recent years, local branches of international companies such as RedPrairie, Mantis S.A. and others.

The Company cannot, at the present time, make any assessment regarding the size of the local market and its share therein, nor does it have any statistical data on which to base itself in this matter. At the same time, the Company's customer base in the field of installations in Israel, which the Company estimates as broader relative to its competitors, includes customers in a wide range of sectors. The majority of the Company’s competitors are larger and more established companies, whose financial and other resources significantly exceed those of the Company, including R&D, marketing and sales resources, as well as a recognized brand name in the market. These competitors are able to respond ahead of the company to changing market needs, and can even offer customers more flexible and convenient financing terms than those offered by the Company, thereby limiting the Company's ability to compete effectively with its rivals.

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

1.10.12 Production capacity

In the systems segment, production capacity is in fact the Company’s ability to implement projects on the scope and within the schedule ordered, and is primarily based upon the Company’s in-house staff that includes a fixed kernel of skilled employees with experience in this type of project, with the Company hiring and training new employees as necessary, in accordance with agreements for the construction and/or maintenance of systems which are signed from time to time.

The sale processes of projects in the systems segment take months and sometimes even years. Even after signing the agreement to set up the system, the initial stages are characterized by planning involving engineers from the Company's constant staff.

Therefore, the Company usually has sufficient time to prepare for the project's execution stages, which require additional staff. As of the date of this report, the Company uses a large part of this production capacity in relation to existing agreements for the construction of systems during 2013-2015.

1.10.13 Fixed assets, real estate and facilities

The Company has no fixed assets, real estate or facilities that are specific to the systems segment, and it makes use of fixed assets, real estate and facilities for its activities in the three segments (for details see Section 1.13 below).

1.10.14 Human capital

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

1.10.15 Raw materials, suppliers and subcontractors

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

In 2013 and -2014 the Company had no major subcontractors in the Systems segment..

1.10.16 Working capital

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

1.10.16.2 Warranty: The Company typically provides a 12-month warranty for major system components in the systems segment.

1.10.17 Standards and quality control

The activities of the Company's Systems Department in the supply, installation, maintenance, and upgrading of transport systems, automated warehouses and control systems comply with the requirements of ISO 9001, 2008 edition. Certain components of the systems constructed by the Systems Department are designed in accordance with various applicable standards, including Israeli Standards IS 413 relating to earthquakes, and IS 414 relating to wind resistance (regarding the structure of the warehouse and the shelves array); standards concerning hoisting facilities such as IS 1202 (hoisting facilities – steel cables, for cranes and elevators); and standards pertaining to electrical installations and other safety standards. The compliance of Company-constructed systems with these standards' requirements is generally checked by professional inspectors, independent of the Company, who test each system individually, as part of the processes for completing the system for delivery to the customer. Also in force in Israel are specific standards (F.E.M. standards) for the conveying systems sector, laid down by the European conveying equipment manufacturers association, which address, among other issues, the functionality of facilities and systems.

Compliance with the above standards is a binding legal requirement for marketing Company services in some of the Company’s target markets, and in other markets it is a market requirement, although not a formal legal requirement. There is no certainty that the Company will manage to meet the requirements applicable to its services in order to be compliant with these standards or others if called for, and failure to comply with the provisions of said standards could limit the Company’s ability to market its services in some of its target markets. As of the date of this report, the Company is unaware of failure to comply with the standards applicable to its systems as described above.

1.10.18 Business objectives and strategy

The Company aims to position itself as a leader in the field of automated logistics systems mainly in Israel and to expand its activity in this area abroad. Measurements for evaluating success in achieving these objectives include, *inter alia*, the number of installations (systems built with the Company’s participation) each year, the satisfaction of customers and business entities with which the Company interacts, and the overall contribution of the systems segment to the Company’s profitability.

In order to achieve these objectives, the Company plans to improve the management and control software for its logistics systems, and to continue developing and improving these products on the basis of continuous analysis of market trends, market surveys conducted from time to time, and responses from customers and business entities with which it interacts. There is no certainty regarding the Company’s ability to actually improve existing products and to develop new products in the systems segment, and this depends, among others, on analysis of market needs and consumer preferences as expressed in the Company's firsthand contacts with the markets, technological feasibility, costs of potential developments, as well as the strong competition in the sector, as described in this annual report.

In addition, the Company plans to continue to promote the marketing infrastructure of the systems segment in Israel and expand it to other destinations worldwide. There is no certainty that the Company will actually be able to develop and bolster the its marketing setup in the systems segment, this depending, among other things, on analyses of marketing characteristics and attributes of the markets for the Company's services, conducted periodically by the Company, and on the lengthy, complex selling process of these services, as explained in this annual report. At the same time, the Company plans to continue studying from time to time business opportunities in Israel and the US, with a view to expanding its operations financially, technologically and marketing-wise. There is no certainty that the conditions for such opportunities will materialize and/or whether such opportunities will even present themselves to the Company.

1.10.19 Forecast for developments in the coming year

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

As part of the Company's preparations for improving efficiency and a possible growth in sales in this sector, the Company is examining the possibility of consolidating the development, management and marketing activities between the systems sector and the parking solutions sector. This move is intended, on the one hand, to concentrate all of the Company's activities in connection with the automated systems under a single roof and to allow the Company and the subsidiary to act as independent companies while focusing on their business, and on the other hand, to contribute to the exposure of each one of the companies to a large and more diversified public of investors.

1.10.20 Environmental protection, environmental risks and management thereof

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

However, the Company is sometimes required, as part of its agreements with some of its customers, to build and integrate automated logistic systems which may include, among others, construction aspects ("**projects including construction**"). In these cases, the Company undertakes to comply with requirements pertaining to environmental protection, in accordance with the directives of the Ministry for Environmental Protection, the requirements of local authorities, legislative requirements and the relevant by-laws – in order to receive building permits for the execution of projects including construction for such customers. The Company is also obligated, during the execution of projects including construction, to comply with the requirements of the law and local authorities, with respect to the environmental management of construction sites and the removal of debris and waste from construction sites, and at the end of the project it is required to prove compliance with these environmental requirements to obtain occupancy permits for such customers.

For the execution of construction work in projects that include construction, the Company enters into contracts with subcontractors that engage in construction. The terms of agreements with these subcontractors usually include adopting the Company's undertakings pursuant to the agreement with the customer (back-to-back) in connection with the subcontractors' work, including the treatment of and responsibility for environmental aspects.

As of the date of publication of this report and given the aforesaid, the Company believes that its activity in the systems segment in general, and in projects including construction in particular, the Company is not exposed to environmental risks that have or could have a material impact on it.

1.11 **Parking Solutions Segment**

1.11.1 Structure of the segment and changes therein

The Company's activity in the field of parking solutions focuses on automated and mechanized systems designed to offer efficient and cost-effective parking solutions mainly in the field of automated parking facilities.

This field is not new around the world; however, as described hereinafter, there has been a global awakening of interest in the field in recent years, with the exponential growth in the number of vehicles, crowded parking conditions in urban areas and soaring land prices. An automated parking facility is designed to accommodate two to three times the number of parking spaces within the same volume as a conventional self-park, thus saving on current operating costs, while simultaneously improving the driver's personal security and safety and enhancing his driving experience. Automated parking facilities are considered "green" and environment-friendly solutions due to their reduced energy consumption and emission of exhaust gases (the vehicles are conveyed from and returned to the parking space with the engine turned off, without the need for artificial lighting - a factor that reduces the carbon signature of an automated parking lot), a factor that also impacts this operating segment and its growth.

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

In the field of parking solutions there are at present specific Israeli standards which are based on international standards. In addition, activity in this field is subject to general guidelines and standards in different parts of the world, relating to additional areas that are included and/or relevant to the systems segment. For further details see Section 1.11.19 below.

1.11.3 Changes in the scope of activity and profitability of the segment, developments in the segment markets and changes in customer characteristics

The need for vehicle parking solutions has apparently existed since the invention of the motor vehicle. According to the International Organization of Motor Vehicle Manufacturers (OICA), more than 85 million vehicles were manufactured in 2013 alone (an increase over 2012), and forecasts put the number of vehicles manufactured worldwide by 2018 at more than 100 million vehicles per year. According to estimates, there are more than 650 million vehicles on the road today (http://oica.net/wp-content/uploads/press-release-press-conference-20120307.pdf, and http://www.worldometers.info/cars). The International Parking Institute ("**IPI**") estimates that revenues in the parking industry in the US alone stood at 25 to 30 billion dollars in 2013. Estimates of the number of commercial parking spaces available in the US alone range between 100 million and 750 million (http://www.parking.org/media/overview-of-the-us-parking-industry.aspx).

According to a survey conducted by IPI in 2013 (http://www.parking.org/media/emerging-trends-in-parking.aspx), the trends that have the biggest impact on the parking industry include: the rise in the integration of technologies and automation to improve efficiency and scale back the operating costs of parking systems, green and sustainable parking solutions; a growing transition toward innovative technologies to improve access, service and security; increasing interest in automated parking systems; and instruction programs offered to entrepreneurs, architects and traffic consultants in various frameworks by international organizations.

Automated and mechanized parking systems have been around for many years. The direct customers of automated parking systems are usually real estate developers who are interested in including an automated parking solution in a real estate project (office buildings, residential buildings or a combination of both), or local authorities seeking to provide parking solutions in their area of jurisdiction, as well as other customers from the private or public sector. Recent years have seen an awakening of interest in this field, due to the trends in the parking industry in general, as noted above, as well as the crowded parking conditions in urban areas, the ever-growing number of vehicles and soaring land prices.

1.11.4 Technological changes that could significantly affect the operating segment

The field of parking solutions is also characterized by frequent technological developments, the introduction of new products and technologies, mechanical innovations enabling more efficient conveyance systems, developments in control and automation technology, as mentioned above, as well as developments in motion technology and in materials technology. The Company works on the development, design and construction and/or upgrading of parking facilities, according to the requirements and technological changes in the different disciplines. Building an automated parking facility involves various disciplines, including mechanical and engineering design, construction (including foundations, shell and other building components), planning, production, supply and installation of mechanical conveyance systems, development and installation of electricity and control systems, development and installation of software systems and coordination between all those participating in the construction of the facility.

1.11.5 Entry and exit barriers and critical success factors in the operating segment and changes therein

In the Company's estimation, the main entry barriers to the field of parking solutions include the knowledge and experience required for the analysis and design of parking facilities according to requirements, the duration of sale processes, due in large measure to the conservative nature of the target markets for these facilities (which traditionally are not technology-oriented), the need to interface with existing payment and collection systems, as well as the need for support and maintenance systems to provide the level of service and availability required for such facilities. In the Company's estimation, the main exit barriers are the Company's undertaking to complete parking facility construction projects in accordance with signed agreements and commitments to service the facilities built by it in accordance with signed annual service agreements.

In the Company's estimation, key success factors in the field of parking solutions include the knowledge and experience accumulated by the Company in the design and construction of automated logistics systems, as described above, the ability to offer components and solutions that conform to market requirements and trends, the functional reliability of the various components, including the offered software and control systems, and the capacity to build a high-level service and support system.

1.11.6 Products and services

1.11.6.1 Automated parking facilities

An automated parking facility is designed to accommodate two to three times the number of parking spaces within the same volume as a conventional self-park, thus saving on current operating costs, while simultaneously improving the driver's personal security and safety and enhancing his driving experience. The parking process in an automated parking facility (or automated parking garage) is similar to the storage and retrieval of goods in an automated logistics system (automated warehouse). In an automated parking facility, the driver drives the vehicle into a parking compartment (or bay) which accepts the vehicle and, after the vehicle occupants have gotten out, transports the vehicle and parks it in the most suitable vacant space available in the facility. Subsequently, upon demand, the system returns the vehicle to a vacant compartment (bay).

Like the automated logistics systems described above, automated parking systems generally include the following components: (a) conveyance elements (controlled computerized mechanical systems, such as trolleys for horizontal conveyance of the vehicles and lifts for vertical conveyance, which perform the vehicle storage, retrieval and conveyance operations); (b) shelving systems (metal and concrete or another combination of materials) for storage (parking) of the vehicle; (c) entry and exit compartments (or bays) through which the vehicle which is to be parked enters the facility and from which the driver picks up his vehicle; (d) control systems for controlling all of the system's mechanical elements, including regulators, sensors and control software. The components sometimes also include infrastructure elements such as foundations, shell, ceiling and other structural elements.

In this operating segment, the Company focuses on the provision of various services, primarily planning, engineering, construction and maintenance of customized automated parking facilities. As well, the Company engages in the development, engineering and production of the conveyance, control and software components for these facilities.

Unitronics has developed a proprietary technology which is intended to increase parking density and to enhance the efficiency of the use of parking garages, and it is based on a system of robotic units which have been developed at the company, an array of trolleys and automatic elevators and computer control programs that are intended to allow efficiency in the operation of the robotic systems and the storage time or the retrieval of a vehicle from the parking space in an average of approximately two minutes, so that in the volume which usually serves as a single parking space in a conventional parking garage, the Company's system is intended for the parking of three vehicles. The Company believes that the technology which it has developed will make it possible, for the first time, to achieve these advantages at an overall cost which is lower than the cost of conventional parking garages, taking into consideration all of the costs for the developer.

Unitronics believes that the advantages of the system include, among other things: an overall savings in investment, an environmentally friendly system, reduced electricity consumption, the reduction of the emission of pollutants by the vehicles driving around the parking garage, particularly quiet activity, the reduction of the need to dig beneath the groundwater line, the reduction of the maintenance costs and adjusted access for disabled persons for the entire parking garage, in addition, the system is planned to offer convenience and to enhance safety for the drivers using the parking garage.

The Company also develops and markets, as a single suite together with the automated parking facilities built by it, an Automated Parking Management System (APMS) which enables automatic command, control and management of automated parking facilities, including management of the admission, parking and delivery of vehicles, as well as operation and synchronization of the movements of automatic conveying systems.

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

1.11.6.2 Trends and changes

Several years ago, the Company began using its abilities, developments and years of experience in the design, construction and maintenance of complex conveying systems and advanced control systems (implemented in the field of automated logistics systems), also in the field of automated parking facilities. This field calls for tools, methods and systems very much like those required in the field of logistics systems. In both fields of logistics systems and automated parking facilities, the Company reuses various modules (mechanical modules, control modules and software modules) which are suited to the system's requirements and thus allow the Company to integrate and combine components in the design and construction stages.

As detailed above, the field of parking solutions has been in existence for many years, but recent years have seen an awakening of interest in the field. The Company estimates, based on the trends described above, that various macroeconomic considerations, including the cost of land, manpower costs, transportation and environmental considerations, and the need to improve drivers' welfare, could serve to entrench automated parking technologies worldwide. However, the pace of penetration of automated parking systems and their acceptance by building developers, local authorities and city drivers worldwide is still unknown and the Company is unable at this stage to estimate it.

1.11.7 Segmenting of revenues and profits

The contribution to the Company's profitability from this segment varies from transaction to transaction according to the technical and functional requirements of each particular transaction and the results of negotiations with the Customer in each case. Below are details of the Company's consolidated revenues and gross profit in the parking solutions segment for the specified periods[9]:

	Year Ended December 31		
	2014	**2013**	**2012**
	NIS Thousands		
Parking solutions (volume and percent from total income)	(14%) 24,641	(3%) 5,195	(1%) 664
Gross profit (volume and percent)	(5%) 1,333	(*) (1%) 19	(88%) 581

(*) Including development costs assigned to the segment, see section 2.2.2 below

1.11.8 Customers

The direct customers in the parking solutions segment are usually real estate developers who are interested in including an automated parking solution in a real estate project (office buildings, residential buildings or a combination of both) or local authorities seeking to provide parking solutions in their area of jurisdiction, as well as other customers from the private or public sector.

Customers in the parking solutions segment usually retain the Company to design and/or build one new automated parking facility at the customer's site or at a site which is being built by the customer, and to service and support the facility following its delivery for commercial use. In certain cases, the Company is retained to service, improve, upgrade or enhance an existing facility (which was installed by the Company or by third parties) at the customer's site. The Customer's services in the field of parking solutions are provided at present mainly in North America (US and Canada) and in Israel, but are also offered to customers in other parts of the world.

The parking facilities that have been and presently are being built by the Company in this field include a municipal parking lot in Hoboken, New Jersey, a parking lot in an integrated office building in Mexico City, a municipal parking lot in West Hollywood, California, a parking lot in a residential complex in Tel Aviv and a parking lot in an integrated residential complex in Hoboken, New Jersey, a parking lot in a residential complex in Calgary, Canada and additional projects in residential complexes in the Dan Region in Israel.

[9] The direct holdings of the Company in Unitronics Systems Inc. which is mainly engaged in the business activities of the Company in the field of automated facilities, including in the field of parking in the United States and in North America, were transferred during the reporting period to Unitronics Automated Solutions.

Services in the field of parking solutions are provided pursuant to agreements whose terms vary from case to case, but which generally incorporate a list of defined and detailed tasks, technical and functional specifications which the automated parking facility that is being constructed will be required to meet (such as capacity and output), timetables (mostly ranging from 8 to 24 months for the planning, production, construction and operation of the automated parking system, depending on the timetables for the different construction stages, the complexity of the facility and other factors that differ from case to case) and installment payments according to the progress in work. Under these agreements, the Company is generally required to furnish bank guarantees to secure performance of its obligations. At the reporting date, the Company provided bank guarantees as detailed above totaling NIS 16.6 million.

The Company typically provides a 12-month warranty for major components of the automated parking facilities), which generally includes an undertaking to start attending to certain malfunctions within predefined timetables, a commitment to provide service against payment at the end of the warranty period, and an undertaking to ensure the availability of spare parts for defined periods.

Principal customers: The Company has had no principal customer in the parking solutions field during the reporting period.

1.11.9 Marketing and distribution

In the parking solutions segment, the Company operates in Israel (within Unitronics Automated Solutions) and in the US (within Unitronics Systems Inc. and its offices in New Jersey and Los Angeles) and through in-house marketing and sales teams consisting of several employees who handle relations with potential customers, prepare engineering and commercial responses to tenders, draw up price proposals, foster customer relations and locate business opportunities in Israel and the world.

If necessary, marketing activities in certain regions are sometimes carried out with the assistance of independent distributors (finders), who receive a sales commission in the event that their marketing activities mature into a binding commercial agreement between the Company and the customer. The Company's agreements with such distributors confer in some cases exclusive rights to distribute the Company's automated parking solutions in defined territories, subject to compliance with sales targets and for limited periods (usually one year) renewable subject to meeting specified minimum sales or subject to the Company's discretion in the event that the distributor fails to meet the specified minimum sales.

1.11.10 Order backlog

Sales of services in the parking solutions segment involve an extended sales cycle, requiring substantial input of time and resources, including participation in presentations and tenders, alongside other participants, and the services themselves extend over several months and sometimes several years, depending on the complexity of the automated parking facility as well as the permits required for its setup, including building permits. The table below contains data on binding agreements for services in the field of parking solutions for the indicated periods, according to timetables and milestones in the setup of these facilities:

Period of recognition of anticipated income	**Agreements for implementation of parking solution services as of March 8, 2015 (the closest possible date to this reporting date)**	**Agreements for implementation of parking solution services as of December 31, 2014**	**Agreements for implementation of parking solution services as of December 31, 2013**
	NIS, thousands		
Q1 2014	---	---	4,482
Q2 2014	---	---	3,884
Q3 2014	---	---	3,595
Q4 2014	---	---	3,548
For 2015	---	---	5,369
Q1 2015	5,994	5,994	---
Q2 2015	8,443	8,443	---
Q3 2015	34,828	11,494	---
Q4 2015	16,206	6,873	---
For 2016	74,928	14,259	---
Total	140,399	47,063	20,878

Differences in the reported order backlog between 2013 and 2014 arise from the rate of receipt of new orders for the construction of parking systems during the ordinary course of the Company’s business and from changes in the milestones of current projects on order. The difference between the order backlog reported as of December 31, 2014 and the order backlog reported as of March 8, 2015 arises from signing an additional project after the date of the balance sheet. See section 1.20.9 below.

1.11.11 Competition

The Company cannot, at the present time, make any assessment regarding the size of the local and global markets and its share therein, nor does it have any statistical data on which to base itself in this matter. The majority of the Company’s competitors are larger and more established companies, whose financial and other resources significantly exceed those of the Company, including R&D, marketing and sales resources, as well as a recognized brand name in the market. These competitors are able to respond ahead of the company to changing market needs, and can even offer customers more flexible and convenient financing terms than those offered by the Company, thereby limiting the Company's ability to compete effectively with its rivals.

The Company's main competitors include companies from the Automation Group, LTV, Wohr, Westfalia and others. The Company competes and plans to continue competing with its rivals, primarily on the basis of the quality and innovation of its products and services versus its rivals' solutions (including product functionality, flexibility and performance, standard of technical support and customer service offered by the Company). Nevertheless, there is no certainty that the markets or existing or prospective customers will regard the Company's services as more worthwhile than those of its competitors. Likewise, there is no certainty that its competitors will not offer products and services that make the Company's services less competitive.

1.11.12 Production capacity

Production capacity in the field of parking solutions is essentially the Company's ability to manufacture components for parking systems and to implement projects in this area on the scope and within the times ordered. This capacity is based on in-house teams of the Company, whose number was increased with the establishment of Unitronics Automated Solutions. These teams engage primarily in the design, engineering, development (mechanics, electricity, control and software), manufacture, assembly, installation and management of automated parking system construction projects.

Another operation carried out concurrently is the manufacture of mechanical assemblies by subcontractors. The use of subcontractors for such tasks ensures quality production by contractors specializing in mechanical assembly production processes, and also allows for growth and flexibility, given the high production capacity of the existing subcontractors and the possibility of bringing in more subcontractors as needed (subject to a learning and assimilation curve as detailed below). For further details on subcontractors, see Section 1.11.17 below.

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

1.11.13 Fixed assets, real estate and facilities

Since December 2011 the Company has been renting a building in the Yavne industrial zone in which it concentrates its parking-solution operations. The leased area in Yavne houses computerized system equipment, automated parking system components, vehicles, laboratory equipment, and office furniture and equipment serving these operations. For details see Section 1.13.4 below. Apart from this, the Company also uses for purposes of this operating segment the fixed assets, real estate and facilities serving the other operating segments (for details see Section 1.13 below). The area in the Yavne industrial zone area has space and layout limitations and may not be suitable for the planned operations of the Company in the coming years, a situation that will require the Company to transfer its operations in the parking field to a more suitable location[10].

[10] The information concerning the transfer the location of the operations in the parking field is forward-looking information. The information is mainly drawn from the Company's development plans in the field of parking solutions and its expansion requirement in this area versus the limitations of the current facilities which characterizes the building in which the Company focuses the parking solutions field as of the reporting date. The

1.11.14 Research and Development

Below are details of amounts spent by the Company on development activities during the periods specified below:

	Year Ended December 31		
	2014	2013	2012
	NIS Thousands		
Payroll and related expenses	4,733	3,646	1,868
Materials and subcontractors	4,464	2,519	1,798
Other expenses	1,221	1,393	611
Net of capitalized expenses recognized as an intangible asset	(7,275)	(4,796)	(2,563)
Total	3,143	2,762	1,714

Overall, the Company spent NIS 10,419 thousand during the reporting year (of which NIS 7,275 thousand were recognized as intangible assets) for the development of products and technologies as detailed in Section 1.11.6 above.

The Company foresees continued development activity in this segment, involving the development of components (modules, transport elements, software and control elements), at levels that will assist possible growth in its operations in this field.[11]

1.11.15 Intangible assets

As stated, the Company recognized a part of the product and technology development expenses (as detailed in Section 1.11.14 above) as intangible assets. In addition, the Company protects its intellectual property through the registration of patents. For details on intangible assets connected with the operating segment, see Section 1.14 below).

1.11.16 Human Capital

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

main factors which could prevent this information from being implemented are non-exercise of the Company's development program in the field of parking solutions, along with the failure to locate an alternative area to transfer the operation, due to its cost, quality or lack of suitability for operations in this field, all in addition to the general risks set out in section 1.23 of this report.

[11] The information regarding total anticipated development expenses in the Parking Solutions segment is forward-looking information. This information is drawn primarily from the Company's development plans based, *inter alia*, on an analysis of market needs and consumer preferences, as expressed in the Company's firsthand contacts with the markets, technological feasibility, the Company's assessments of development costs needed to fund development work, as well as Company estimates of anticipated revenues in this segment. Major factors that could prevent this information from materializing are actual revenues generated by the sales of Unitronics Parking Solutions in 2015, the amount of the required investments in this activity, which could considerably overrun the Company budgets designated thereof, limitations on the ability to commercialize these technologies at competitive market prices or at all, lack of development of markets and consumer culture suited to the use of the developed technologies, the superior financial and technological means available to a substantial part of the Company's competitors, all this in addition to the general risks detailed in Section 1.23 of this report.

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

1.11.17 Suppliers and Subcontractors

The Company is a party to several nonexclusive agreements with a number of subcontractors for the manufacture of mechanical assemblies, for amounts which are insignificant for the Company. The Company is not bound by any framework arrangement with them, hiring their services according to need and on an ad-hoc basis. The usual trade terms between the Company and the production subcontractors include open credit without guarantees, payment terms: net 60 EOM, and predetermined lead time (weeks or months according to complexity of production).

The Company is not dependent on particular subcontractors for production and can hire for this purpose other additional contractors. Nevertheless, replacing an existing subcontractor with a new one could involve delays stemming from a learning and assimilation curve with respect to the Company's needs and/or use of unique production components customized to the Company's needs. The Company's assessment is that replacing a subcontractor would not result in a significant increase in costs.

1.11.18 Working Capital

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

1.11.18.2 Warranty: In this operating segment, the Company generally grants a warranty of 12 months for most of the system

1.11.19 Standards and Quality Control

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

Compliance with certain standards could be a binding legal requirement for marketing the Company's services in some of the Company's target markets, while in others it may be a market requirement even though there is no formal legal requirement. There is no certainty that the Company will manage to meet the requirements applicable to its services in order to be compliant with these standards or others if called for, and failure to comply with such standard requirements may limit the Company's ability to market its services in some of its target markets.

1.11.20 Goals and Business Strategy

The Company aims to position itself as a global leader in the area of parking solutions, and to expand its operations in this industry both in Israel and abroad, through the export of its capabilities and technologies. Measurements for the evaluation of success in realizing these goals include, among others, the number of installations (automated parking systems constructed with its participation) per year in Israel and abroad, quantity and volume of technology sales and management products to customers and other entities outside Israel with which the Company collaborates in its operations in this sector, satisfaction of Company customers and business entities with which it interacts, and the overall contribution of the parking solutions segment to the Company's profitability.

In order to achieve these targets, the Company is acting to continually upgrade its self-developed automated parking systems, the mechanical transport components and the management and control systems, while the Company is examining the possibility of turning some of its activities in this sector into the sales of designated robotic products for this sector (off-the-shelf) without the direct intervention of the Company in the establishment of the projects, based on an ongoing analysis of market trends, as well as the responses of customers and business entities with which it interacts. There is no certainty that the Company will actually be able to improve existing products and develop new ones in the area of parking solutions, this depends, among other things, on an analysis of market needs and customer preferences, as expressed in the Company's firsthand dealings with the markets, technological feasibility, costs of potential developments, as well as the competition in the sector, as described in this annual report.

In addition, the Company is planning to continue developing and bolstering its international marketing setup in the parking solutions segment – at first, primarily in North America and Israel and then in other countries. There is no certainty that the Company will actually be able to develop and bolster its international marketing setup in this segment, this depending, among other things, on analyses of marketing characteristics and attributes of the markets for the Company's services, conducted periodically by the Company, and on the lengthy, complex selling process of these services, as explained in this annual report. At the same time, the Company plans to continue studying from time to time business opportunities in Israel and the world, with a view to expanding its operations financially, technologically and marketing-wise. There is no certainty that the conditions for such opportunities will materialize and/or whether such opportunities will even present themselves to the Company.

In addition, the Company is reviewing the development of a generic product line based on installed systems that constitute a basket of shelf products designated to enable automated parking solutions without the need for customization. This trend is designed to accommodate the Company's activities in the growing market demand for automated parking solutions.

1.11.21 Development Forecast for the Coming Year

To allow for continued sales in the sector of automated parking systems, the Company must invest great amounts in development, marketing, sales promotion and personnel training, so that it can offer existing and prospective customers products and services designed to provide a suitable solution, which are more competitive and more efficient than those offered by its competitors.

As part of this move, the Company is examining possibilities of acting to sell the robotic products developed by the Company as off-the-shelf products to customers around the world which are interested in setting up automated parking garages.

According to the Company's assessment, the continued growth in sales and in the scopes of production in this sector is likely to improve the gross profitability of this sector beyond the profitability that exists in the parking sector or in the logistics systems sector, and to bring the gross profit close to the profitability that exists in the product sector. There is no certainty regarding the Company's ability to actually improve existing products and to develop new products in the parking solutions sector and, accordingly, to improve the gross profit of this sector[12].

The Company plans to continue its marketing activity and market penetration efforts with respect to automated car parks, with the aim of increasing awareness of the advantages of these parking solutions.

In order to leverage and boost the Company's sales in the parking solutions segment, the Company plans to continue directing additional resources to marketing and penetration activities, focusing on specific export markets, with the aim of expanding the scope of its target markets to include operations in this segment, mainly in North America and Israel.[13]

[12] The information regarding the continued growth in sales and the possibility of improving the Company's gross profit in the parking solutions sector is forward-looking information. The facts and the main data which have served as a basis for the information regarding the continued growth in sales are talks at various stages with potential customers in the sector. The Company's Assessments for the improvement of the gross profitability are based on preliminary talks with subcontractors regarding the reduction of costs from the change to serial production. The main factors that are likely to give rise to the situation whereby this information will not materialize are changes in market requirements and consumer preferences as compared with those which are expressed in the Company's unmediated dealings with the markets, technological feasibility, costs of potential developments, the quantities that will be sold, the purchasing capacity and cost prices with the subcontractors with whom the Company will engage, and also the competition in the sector as set forth in this annual report.

[13] The Company's actual ability to succeed in developing and bolstering its marketing setup in the parking solutions segment is forward-looking information. This information is drawn primarily from analyses of marketing characteristics and attributes of the markets for the Company's services in this segment, conducted periodically by the Company, and on the lengthy, complex selling process of these services, as explained in this report. The principal factors that could prevent this information from materializing are the strong competition in this sector, and the need to find distributors and/or possibilities for collaboration with suitable business entities with ability and experience in this field.

1.11.22 Environmental Protection, Environmental Risks and Management Thereof

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

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

1.12 Other Activities

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

	For the year ended December 31		
	2014	**2013**	**2012**
	NIS, thousands		
Revenues from Unitronics Management operations	393	439	403

Part IV – Matters Related to the Company's Operations

1.13 Fixed assets, land, facilities, insurance and liens

The major part of fixed assets used by the Company is as set out below:

1.13.1. Unitronics Building – lease from the Israel Land Administration: The Company has capitalized leasing rights (91%) for forty nine years (plus an extension option for an additional forty nine years) under lease agreements dated April 16, 2008, in the ground floor (including basement) and the first floor with a floor area of 1,295 sq.m, and 841 sq.m attached yard area (hereinafter: "**the Company's rights**"), of a building known as "**Unitronics Building**." the address of which is Airport City, P.O. Box 300, Ben Gurion Airport, 70100, Israel (hereinafter: "**the Company's rights in Unitronics Building**"). The Company's rights in the Unitronics Building also known as block 27 parcel 6832, registered in the Condominium Buildings Register in the Land Registration Bureau. The Company also acquired rights to an additional lot of 1,000 sq.m adjacent to Unitronics Building, serving as a parking lot for the Company's employees and visitors (hereinafter: "**the parking lot**").

The Company's rights in Unitronics Building serve as collateral to secure the financing for the acquisition of its rights in the Unitronics Building together with additional financing provided to the Company, all as set forth below in Section 1.17 of this report. The balance of the amortized cost of the Company's floors as of December 31, 2014 amounted to NIS 15,530 thousand. For its current operations, the Company uses the entire space on the Company floors at Unitronics Building. The other floors at Unitronics Building (floors 2-4) (hereinafter: "**the private floors**") are leased from ILA by a company controlled by Mr. Haim Shani, the Company's controlling shareholder, Chairman of the Board and CEO, and his wife Mrs. Bareket Shani (hereinafter: "**the lessor**"), and are leased to third parties, except for 1,106 sq.m leased to the Company (as set forth below in Section 1.13.2). The rights in the private floors were acquired about one month prior to the acquisition of the Company's rights in the Company floors, under a separate agreement, unrelated to the Company or to the agreement whereby the Company acquired its rights in the Company floors, at a price per square meter using the same pricing basis as used by the Company to acquire its rights.

1.13.2 Unitronics Building – lease from the controlling shareholder: In addition to the Company floors, which are used in their entirety by the Company, the Company also leases from a company owned by its controlling shareholder space on the private floors, based on its variable needs from time to time, at the same terms under which space is leased on the private floors to third parties, which also reflect lease terms prevailing at Airport City in general. As at the date of this report the lease ends August 1, 2015 , subject to the company's right to end the lease at any time with prior notice of three months, according to the decision of the Audit Committee of the Company. Under these lease terms the Company leases 1,106 sq.m of office space at Unitronics Building, as well as 30 parking spaces. Under the terms of the lease agreement, the rent is set at NIS 65 per sq.m per month, linked to the CPI, but no less than the CPI that was known on the lease signing date (plus management fees payable to ACL at NIS 5 per sq.m per month, and management fees at NIS 9.5 per sq.m per month payable to Unitronics Management, which provides management and maintenance services for

Unitronics Building). The rent for the parking spaces is NIS 250 per each parking space (in all NIS 7,500 per month for 30 parking spaces). Total cost of the lease for the Company under the lease agreement is NIS 72,000 per month, linked to the CPI (excluding parking spaces and management fees), that shall not be less than the CPI known on the lease signing date. For further details on the approval of the lease agreement between the Company and its controlling shareholders, see Section 4.6.2 in Chapter D of this periodic report. The Company intends to continue to lease the private floors from and after August 1, 2015, and in accordance with the law it will present the extension of the lease to the authorized organs of the Company for approval[14].

1.13.3 On February 20, 2014, the Company entered into an agreement with a third party unrelated to the Company or to interested parties therein for the sale of the Company's rights in a real estate property, with an area of 11,000 square meters, in the Modiin District Industrial Center located in Tirat Yehuda and the plans held by the Company in connection with the planning of the aforesaid property in consideration for NIS 18,500,000 plus statutory VAT. The sale caused the Company to register a loss of NIS 2 million. For further details, see amending immediate report dated February 23, 2014 on an event or matter outside the ordinary course of the Company's business, Reference No. 2014-01-044935, included herewith by reference).

1.13.4 The Company rents from a third party unrelated to the Company and/or to interested parties therein (hereinafter in this section: "**the lessor**") a building in the Yavne industrial zone with a total area of 2,100 sq.m (hereinafter in this section: "**the leased property**"), in consideration for monthly rent of NIS 51,450 (not including VAT and linkage to the CPI), valid from January 1, 2014 until June 30, 2015. The lease agreement shall be automatically extended for three additional periods, of six months each unless the Company advises the lessor 3 months in advance that it does not intend to extend the lease period. The leased property is presently used for the parking solutions business, which is consolidated under the subsidiary Unitronics Automated Solutions Ltd.

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

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

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[14]The information concerning the extension of the lease of the private floors is forward-looking information. The information on this subject is mainly drawn from the plans of the Company's management and the lease conditions prevalent in Airport City. The main factors that may prevent this information from being implemented are changes in the Company's plans and requirements and/or non-receipt of the approvals required by law to extend the lease of these floors..

1.13.7 Unitronics Systems Inc. The second-tier subsidiary Unitronics Systems Inc. leases from a third party unrelated to the Company and/or to interested parties therein office space in Fort Lee, NJ with a total area of 1,400 square feet (130 sq.m), leased until October 31, 2015 at annual rent of US$39,000.

1.13.8 Systems

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

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

1.13.9 Insurance

The Company and its subsidiaries in Israel (except for the subsidiaries in the US – see Section 1.13.9.6 below) are insured under an insurance policy which, in the Company's opinion, provides it with adequate insurance coverage, as follows:

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

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

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

1.13.9.4 Officers Liability Insurance
For details, See section 4.5.8 in Chapter D of this periodic report.

1.13.9.5 Professional Liability Insurance
The Company has Errors or Omissions, and Product Liability Insurance of Electronic products and services with a limit of liability in an amount of US$ 10 million per event and in all for damages could incurred during the insurance period.

1.13.9.6 Insurance of subsidiaries in the US

The US subsidiaries (Unitronics Inc. and Unitronics Systems Inc.) carry separate insurance coverage from the Company. This insurance includes, among others, office contents insurance for $300,000, general liability insurance for a limit of liability of $1,000,000 per event and $2,000,000 in all, and employer liability and employee compensation insurance for NIS 1,000,000 in respect of accidental bodily injury, $1,000,000 per employee in respect of bodily injury caused by illness and $1,000,000 in all in respect of bodily injury caused by illness, total limit of liability up to $1,000,000. Product liability insurance in an amount of US$ 2 million per event and in all for damages could incurred during the insurance period; umbrella insurance in the amount of US$ 10 million per event and in all for damages could incurred during the insurance period; professional liability insurance (architects and engineers) in the amount of US$ 2 million per event and in all for damages could incurred during the insurance period; and also extended liability in respect of bodily injury and/or property damage from vehicles owned and/or leased by the Company in the USA, in a total of US$ 1 million per event and in all for damages could incurred during the insurance period.

1.13.9.7 Other miscellaneous insurance

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

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

1.13.10 Charges

For details on charges see section 1.17 of this report.

1.13.11 Geographical regions

For data on Company operations and noncurrent assets related to overall Company operations by geographical regions, see Note 25 to the financial statements in Chapter C of this periodic report

1.14 Intangible assets

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

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

1.14.2 Patents and patent applications

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

In recent years the Company has also filed various patent applications in respect of certain technological features developed by it in connection with the Company's operations, involving both automated parking systems and control products. These applications were filed in the US, China and Europe. The knowledge accumulated in the field of automated parking systems and the patents in this field are owned by Unitronics Automated Solutions which manufactures the relevant equipment. As of the date of this report, no patents were granted pursuant to these applications.

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

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

1.14.3 Trademark registration

The name Unitronics and the Company logo are registered trademarks in Israel, Europe and the US.

Over the years, the Company has filed and continues to file applications with the Patent and Trademark Office in the US and Europe and with the Patent Registrar in Israel to register trademarks on various names, logos and designs used for the Company's different product ranges. From time to time, the Company files additional applications with the USPTO and with the Patent Registrar in Israel for the registration of various trademarks; there is no certainty that these applications will be granted.

1.14.4. Internet domain names

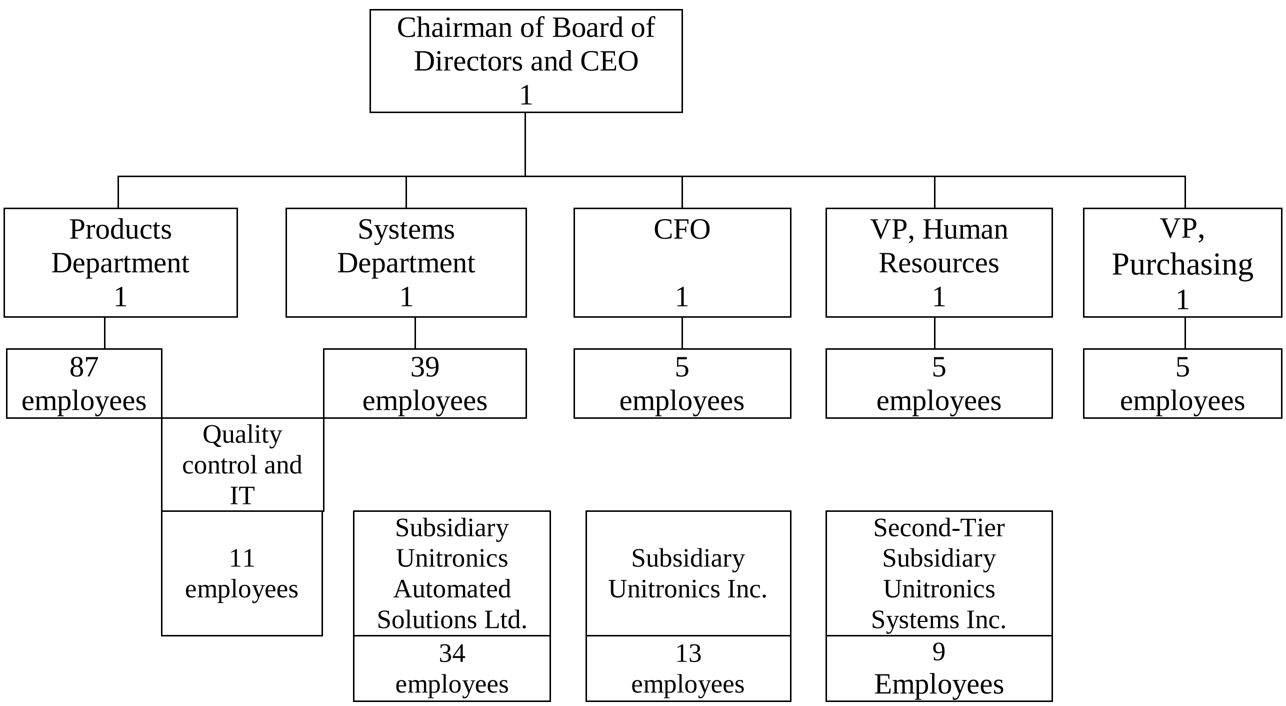
The Company has acquired rights to use domain names (including domain names with various country TLDs) in which it presents information about the Company, its products and related matters. The Company uses these names as addresses for websites used for communicating with existing and potential customers.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

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

1.15 <u>Human resources</u>

1.15.1 <u>Organizational structure:</u> The Company's controlling shareholder, Mr. Haim Shani, serves as Company Chairman and CEO (for details on the approval given for the CEO to serve as Chairman of the Board of Directors, see Section 4.15.2 to Chapter D). Several senior professional executives report to the CEO, as per the chart below, in charge of professional operations, finance and human resources. The Company's commercial operations are carried out by the Product Department and the System Department, each headed by a senior professional executive or executive team, reporting to the CEO, as well as through its active subsidiaries and second-tier subsidiaries.

The Company's organizational chart and staff headcount as of the date of this report are as follows:



1.15.2. <u>Company staff and composition:</u> As of the publication date of this report, the Company and its subsidiaries (in Israel and abroad) have a staff of 214 employees, as set out in the diagram above.

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

Occupation	Staff headcount			
	Close to the report date (March 1, 2015)	December 31, 2014	December 31, 2013	December 31, 2012
Sales and Marketing	18	18	16	16
Research and development	56	54	60	67
Administration	16	16	18	20
Manufacturing, logistics and quality assurance	53	56	51	55
Integration and support	49	47	60	54
Total	**192**	**191**	**205**	**212**

The number of employees in subsidiaries and second-tier subsidiaries:

	December 31, 2014	December 31, 2013	December 31, 2012
Unitronics Inc.	14	9	9
Unitronics Automated Solutions	32	28	33
Unitronics Systems Inc.	10	5	4
Unitronics Management	-	-	-

In 2014, there were no significant changes in the Company's staff in the different segments, as setout above except for that illustrated in the above table in this section.

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

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

The Company has no stock option plan for employees. Stock options are granted, if granted, by the Board of Directors of the Company, based on recommendations made by management, subject to the Company's compensation policy.

1.15.4 Officers and senior management

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

In 2013, the Company adopted a Company officers' compensation policy pursuant to Amendment No. 20 to the Companies Law. For details see Section 4.5.2 in Chapter D of this periodic report.

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

1.15.5 The Company's investment in training and practice

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

1.16 Investments

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

1.17 Financing

1.171. Company operations are financed using the Company's own equity as well as external financing sources. The Company's external financing sources are as follows:

Credit type	As of December 31, 2014			As of December 31, 2013		
	Credit amount, NIS thousands	**Interest rate**	**Effective interest rate**	**Credit amount, NIS thousands**	**Interest rate**	**Effective interest rate**
Long-term bank credit (USD)	1,273(*)	LIBOR + 2.02%	LIBOR + 2.02%	1,515 (*)	LIBOR + 2.02%	LIBOR + 2.02%
Long-term bank credit (EUR)	6,103 (**)(***)	LIBOR + 3.41% -- 2.02%	LIBOR + 3.41%-- 2.02%	9,071 (**)(***)	LIBOR + 3.41%-- 1.93%	LIBOR + 3.41%-- 1.93%
Unlinked lease financing	-	-	-	79	9.9%	9.9%
Debentures (Series 3) (CPI-linked)	-	-	-	46,459	CPI + 5.65%	CPI + 7.12%
Debentures (Series 4) (CPI-linked)	52,930	CPI + 5.4%	CPI + 6.25%	52,656	CPI + 5.4%	CPI + 6.25%
Debentures (Series 5) (unlinked)	38,761	CPI + 5.8%	CPI + 6.59%	-	-	-

(*)(**)The above table lists "long-term bank credit (USD)" in the amount of NIS 1,273 thousand, and "long-term bank credit (EUR)" in the amount of NIS 5,442 thousand. The loans were provided to the Company by Bank Leumi Le-Israel Ltd. (hereinafter: "**Bank Leumi**") on December 29, 2005 (a loan for EUR 1,015,000 and a loan for USD 1,200,000), in connection with lease rights in Unitronics Building (for further details see Section 1.13.1 above) and on July 6, 2011 (a loan of EUR 1 million) in connection with the purchase of real estate in Tirat Yehuda in the Modiin District Industrial area which was sold during the period of the report (for further details see section 1.13.13 above). On May 1, 2008, two first pledges were created on the contractual lease rights under the lease agreements signed between the Israel Lands Administration and the Company, which were registered on June 16, 2008. In January 2015, after the balance sheet date, pledges on the the rights of the Company in the Unitronics Building were recorded in the Land Registration Bureau to secure the aforesaid three loans. Under the terms of the loans, the loans are repayable over 12-14 years from the date of provision of each loan, with the addition of interest at LIBOR + 2.02% to 3.41%. The balance of the debt to Bank Leumi as of December 31, 2014 in respect of these loans is NIS 6,715 thousand.

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

As of December 31, 2014, the Company has current credit facilities (excluding credit for financing the acquisition of the Company's rights in the Company floors and in capitalized lease rights in a real estate property, as described above), totaling NIS 28.5 million –primarily in connection with the provision of bank guarantees to secure the Company's obligations under agreements in the systems segment and in the parking solutions segment, as described above. As of the date of this report, current credit facilities were utilized for a total of NIS 27.6 million. Since December 31, 2014, the Company has not taken credit in significant amounts. Although as of the date of this report the Company is not aware of any limitation, there is no certainty that these credit facilities will be renewed or that the Company will be granted alternative credit facilities under similar terms or at all. Furthermore, credit instruments between the Company and some Israeli banks stipulate that the bank's consent is required in case of certain changes in the composition of the Company's shareholders.

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

Under the 2013 Shelf Offering Report and the 2014 Shelf Offering Report, as defined in Section 1.20 below, the Company has undertaken, *inter alia*, to comply with financial covenants, to create a charge on deposits in the amount of the periodic interest (with respect to debentures (Series 4)), and not to create additional charges on its assets beyond those existing on the date of signature of the trust deed for debentures (Series 4) and the trust deed for debentures (Series 5) (hereinafter, jointly: "**the deed**"), in favor of any third party, without the prior written consent of the trustee, except for charges on real estate and/or equipment acquired by the Company after the date of signature of the deed, the charging of which shall only serve to secure repayment of the financing provided for the acquisition of the charged asset (for further details see sections 1.20.4 and 1.20.6 above).

As of December 31, 2014 and the reporting date, the Company believes it is in compliance with all the restrictions imposed on it in connection with credit facilities granted by third parties.

1.18 Taxation

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

1.19 Restrictions on and supervision of Company activities

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

As of the publication date of this report, the Company does not have a business license for its activity in the property in Yavne as described in Section 1.13.4, and the Company is taking steps to obtain a business license in accordance with the law in connection with this activity. For details on the risks involved in engaging in an activity that requires a business license, without a license, see Section 1.23 below.

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

1.19.3 Ministry of Defense: The Company is a recognized supplier to the Israeli Ministry of Defense as a manufacturer, distributor and service provider in the automated warehouse sector, as of November 25, 2002.

1.19.4 Standards: For details, see sections 1.9.22, 1.10.17, and 1.11.19 above.

1.20 Material agreements and cooperation agreements

1.20.1 The agreements listed in sections 1.9.11, 1.10.8, and 1.11.8 above are material agreements of the Company. In addition, the agreements detailed in this section are material agreements of the Company.

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

1.20.3 The 2011 Shelf Offering and debentures (Series 3) Deed of Trust - On March 22, 2011, the Company entered into an agreement with Reznik Paz Nevo Trusts Ltd. (hereinafter: in this section: the "**Trustee**") to serve as Trustee for the debentures (Series 3) offered under a Shelf Prospectus published on February 22, 2011 (as amended on March 17, 2011) (hereinafter: the "**2011 Shelf Prospectus**”) and the Shelf Offering Report published by the company on March 22, 2011 under the same Prospectus (hereinafter: " **2011 Offering Report** "). During the reporting period, the Company performed early repayment of the total balance of the debentures (Series 3) in circulation.

1.20.4 The Shelf Offering Report (hereinafter: "**2013 Offering Report**"), which was the framework under which the public was offered up to NIS 53,125,000 par value of debentures (Series 4) of the Company, which were offered at 100% of their par value, and which are linked (principal and interest) to the Consumer Price Index for the month of December 2012 (published on January 15, 2013). For the full text of the Offering Report, see the report dated January 24, 2013, Reference No. 2013-01-021699. For further regarding the 2013 Offering Report, and the pursuant undertakings of the Company, see sections 2.9.1.2 and 4.1.1 of this report.

1.20.5 Trust deed for debentures (Series 4): On January 17, 2013, the Company entered into an agreement with Mishmeret Trust Services Ltd. (hereinafter in this section: "**the Trustee**") to serve as trustee for the debentures (Series 4) offered under the 2011 Shelf Prospectus 2011 and the 2011 Shelf Offering. The trust deed includes provisions as to the Trustee's powers with respect to waiver, settlement, changes to the trust deed, declaration of the debentures immediately due and payable, calling of meetings of the debenture holders as well as proceedings at meetings of the debenture holders, voting at such meetings, indemnification of the Trustee, replacement of the Trustee and expiry of the Trustee's office.

1.20.6 2014 Shelf Offering – This was published by the Company on September 10, 2014, under a Shelf Prospectus dated August 19, 2014 (hereinafter: the "**2014 Shelf Prospectus**"), Shelf Offering Report (hereinafter: the "**2014 Offering Report**"), which was the framework under which the public were offered debentures (series 5) of the Company up to a value of NIS 40,000,000, par value, unlinked, which were offered at 100% of their par value. For the full text of the Offering Report, see report dated September 10, 2014, reference number 2014-01-155406. For further information about the 2014 Offering Report and the pursuant undertakings of the Company, see sections 2.9.1.3 and 4.1.2 of this report below.

1.20.7 Deed of Trust (Series 5): On September 10, 2014, the Company entered into an agreement with Hermetic Trust (1975) Ltd. (hereafter in this section: the "**Trustee**") to serve as Trustee for the debentures (Series 5) offered under the 2014 Shelf Prospectus Report and the 2014 Offering Report. The trust deed includes provisions as to the Trustee's powers with respect to waiver, settlement, changes to the Deed of Trust, declaration of the debentures immediately due and payable, calling of meetings of the debenture holders as well as proceedings at meetings of the debenture holders, voting at such meetings, indemnification of the Trustee, replacement of the Trustee and the expiry of the Trustee’s term.

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

1.20.9 The signing of a binding letter of intent –establishment of an automated parking garage in Canada: After the balance sheet date, on March 4, 2015, the granddaughter company, Unitronics Systems Inc, signed with a customer which is not related to the Company or to an interested party of the Company, a binding letter of intent for the construction of an automated parking garage in Canada in an amount of US$ 24 million. For further details, see the immediate report of an event or matter that deviate from the corporation's normal course of business, dated March 8, 2015, Reference No. 2015-01-045496.

1.21 Legal Proceedings

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

1.22 Subsidiaries

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

1.22.1.1 General Description

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

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

Unitronics Management operates out of Unitronics Building without offices, assets or designated employees of its own. The activity of Unitronics Management is carried out through managers and employees of the Company, making use of the Company's assets, while all the tenants of the building pay for the services of Unitronics Management on the basis of an index of charges that is identically applicable to all of them and requires payment pro rata to the area in use by each tenant. For details on the nature of the services provided by Unitronics Management and the payments collected by it (which are in amounts that are insignificant for the Company), Section 1.12 of this periodic report

1.22.1.3 Registered and issued capital; the Company's share

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

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

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

1.22.1.5 Loans, credit, guarantees, investments in the Company

As of date of this report, Unitronics Management has no debts to the Company and the Company has not issued any guarantees in favor of Unitronics Management, with the exception of current debts in the ordinary course of business, in insignificant amounts.

1.22.1.6 Holders of more than 25% of the share capital

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

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

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

1.22.1.8 Directors and senior officers in Unitronics Management

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

No General Manager has been appointed to Unitronics Management; Mr. Haim Shani, who also serves as CEO of the Company and Chairman of its Board of Directors, serves in practice as the Chairman of the Board of Directors of Unitronics Management.

1.22.1.9 Profit/(loss) of Unitronics Management

For information regarding profit (loss) of Unitronics Management, see the table in Section 1.22.4.8 below.

1.22.2 **Unitronics Inc.**

1.22.2.1. General description

Unitronics Inc. was incorporated on June 25, 2001, as a wholly owned subsidiary of the Company. Unitronics Inc. is primarily engaged in the marketing and distribution of products from the Products segment of the Company and its service activities in the United States, and operates a network of 110 distributors spread throughout most of the states of the United States. The offices of Unitronics Inc. are located in the vicinity of Boston, Massachusetts, where most of the activities of the products segment are carried out in the US.

1.22.2.2 Registered and issued capital, the Company's share

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

1.22.2.3 Cost to the Company of Unitronics Inc. shares and their carrying amount in its books

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

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

The equity deficiency of Unitronics Inc. as of December 31, 2014 amounts to NIS 7,426 thousand. The balance of the current debt of Unitronics Inc. to the Company as of December 31, 2014 amounts to NIS 3,118 thousand. In addition, the Company issued to Unitronics Inc. capital notes for a total of NIS 12 million, unlinked and with no interest, as set forth in Note E(3) to the special report pursuant to Regulation 9C in Chapter C of this periodic report.

1.22.2.5 Holders of more than 25% of the share capital

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

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

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

1.22.2.7 Directors and senior officers in Unitronics Inc.

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

1.22.3 **Unitronics Automated Solutions Ltd. (formerly: "Unitronics Parking Solutions Ltd.")**

1.22.3.1. General description

Unitronics Automated Solutions is engaged in the development, design, marketing, production, construction and maintenance of automated installations, including construction of new systems and/or upgrading and servicing of existing systems, as well as maintenance services for these systems on the basis of framework agreements or pursuant to service calls. The subsidiary's services are provided to customers in and outside Israel.

1.22.3.2 Registered and issued capital, the Company's share

As of the date of this report, the registered share capital of Unitronics Automated Solutions is NIS 1,000,000, divided into 100,000,000 shares of NIS 0.01 par value each, of which 10,000 shares in the amount of NIS 100 were issued to the Company and are held by it. In addition, 11,622,000 shares of Unitronics Automated Solutions in the amount of NIS 116,220 were allotted to the Company in consideration for the transfer of an IP development asset of the Company to Unitronics Automated Solutions, pursuant to an agreement dated March 29, 2012 for the consolidation of the parking solutions business under the subsidiary.

1.22.3.3 Cost to the Company of Unitronics Automated Solution shares and their carrying amount in its books

As of the date of this report, the cost to the Company of the shares of Unitronics Automated Solutions held by the Company is NIS 116,320.

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

As of December 31, 2014, the balance of the debt of Unitronics Automated Solutions to the Company stands at NIS 42 million, NIS 35 million of which is classified as long term. On December 31, 2014, the Company gave Unitronics Automated Parking Solutions an undertaking not to call in the balance of the long term debt before January 1, 2016. Furthermore, as of the date of the report, the Company issued guarantees in favor of a Customer in order to guaranty Unitronics Automated Solutions undertakings, under an agreement for the installation of an automatic parking system in the sum of NIS 1.3 million.

1.22.3.5 Holders of more than 25% of the share capital

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

1.22.3.6 Management fees, interest, dividend and other payments – Unitronics Parking Solutions

During the periods reported in this report, Unitronics Automated Solutions has paid the Company interest and management fees for services provided to them by the Company which include management and administration services (see section 1.22.4.8 below).

1.22.3.7 Directors and senior officers in Unitronics Automated Solutions

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

1.22.4 Unitronics Systems Inc. (which upon the the transfer of the holdings of the Company thereof, has become a subsidiary of Unitronics Automated Solutions)

1.22.4.1. General description

Unitronics Systems Inc. was incorporated in March 19, 2012, as a wholly owned subsidiary of the Company, and it is active since July 10, 2012. In November 2014, the Company sold its entire holding in Unitronics Systems Inc. to the subsidiary Unitronics Automated Solutions for the par value of the shares.

Unitronics Systems Inc. is engaged primarily in coordinating the Company's activity in the field of solutions and/or parking solutions of the Company in the US and North America. The offices of Unitronics Systems Inc. are located in Fort Lee, New Jersey.

1.22.4.2 Registered and issued capital, the Company’s share

As of the date of this report, the registered share capital of Unitronics Systems Inc. is $1, divided into 1,000 shares of $0.001 par value, all of which are held by Unitronics Automated Solutions.

1.22.4.3 Cost of the shares of Unitronics Systems Inc., Unitronics Automated Solutions and the carrying price in the books of Unitronics Automated Solutions

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

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

The equity deficiency of Unitronics Systems Inc. as of December 31, 2014 amounts to NIS 3,898 thousand. The balance of the current debt of Unitronics Systems Inc. to Unitronics Automated Systems as of December 31, 2014 amounts to NIS 3.7 million. Furthermore, the Company issued guarantees in favor of a Customer in order to guaranty Unitronics Systems Inc. undertakings, under an agreement for the installation of an automatic parking system in the sum of NIS 14.7 Million as of the date of this report

1.22.4.5 Holders of more than 25% of share capital

As of the date of this report, Unitronics Systems Inc. is owned and wholly controlled by Unitronics Automated Solutions. As stated in section 1.22.4.1 above, Unitronics Systems Inc. has been held by the Company directly since its founding and until the sale of all the holdings of the Company of its shares in November 2014 to Unitronics Automated Solution.

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

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

1.22.4.7 Directors and senior officers in Unitronics Systems Inc.

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

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

	Year Ended 31.12.2014			
	Unitronics Systems Inc.(*)	Unitronics Automated Solutions Ltd	Unitronics Management	Unitronics Inc.
NIS Thousands				
Profit (loss) before tax	(1,816)	(9,410)	(34)	2,913
Profit (loss) after tax	(1,816)	(9,410)	(128)	2,913
Dividend	-	-	-	-
Management fees	-	680	-	-
Interest Income	-	903	-	-

(*) The company is wholly controlled by Unitronics Automated Solutions Ltd. since November 2014. The presented information is in the books of Unitronics Automated Solutions Ltd.

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

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

1.22.5 Inactive subsidiaries

In addition, the Company holds 100% of the issued share capital of Unitronics Industrie Automation GmbH, a company registered in Germany, and 30% of the issued share capital of Unitronics S.A. (Proprietary) Limited, a company registered in South Africa. Unitronics Industrie and Unitronics S.A. were established in 1995 and 1997, respectively, mainly for purposes of the Company's marketing activities in those countries. The companies have been inactive for several years (the German subsidiary since 1997 and the South African subsidiary since 2000), and have no assets, no employees and no obligations.

1.23 Discussion of risk factors

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

Type of risk	Nature of risk	Estimated extent of influence on the Company
Macro risks	*Exposure to market risks*: The Company is exposed to fluctuations in interest rates, in exchange rates, in the consumer price index and in the prices of securities in which a substantial part of the cash balances is invested. For details see Note 27 in Chapter C of this periodic report	Medium
	Exposure to strikes in Israeli ports: Strikes in Israel's seaports and/or airports could delay the import of raw materials used by the Company (including logistics system components) and/or the export abroad of Company products, thereby disrupting the supply times to which the Company is committed, which is liable to cause the Company expenses and/or harm its reputation.	Low
Sector-related risks	*Competition*: The Company is exposed to competition by companies whose resources and reputation surpass those of the Company as set forth in Sections 1.9.13 (in relation to the products segment), Section 1.10.11 (in relation to the systems segment) and Section 1.11.11 (in relation to the parking solutions segment), as set forth above.	High
	Standards: The Company is exposed to risks arising from the failure of its products or services to comply with certain standard requirements as set forth in Sections 1.9.22, 1.10.17, and 1.11.19 above.	Medium
	Raw materials: The Company is exposed to risks arising from temporary shortages in electronic components worldwide and limited allocations of components by component manufacturers, in cases of excess demand, as set forth in Section 1.9.19 above.	Medium
	Project costs estimates: in the systems and in parking solutions segments the Company determines the amount of the consideration, inter alia, as a derivative of the expected costs plus a margin that it expects to receive and facilitating the receipt of an order. However, the Company is exposed to errors in the estimates of the calculation of project costs, among other things, from changes and improvements in development, procurement and production, which could impair the profitability of the company, and even cause loss and effect to the Company's	Medium

	financial results, as detailed in Sections 1.10.7, 1.11.7 and -1.6.1	
	Penetration of the parking solutions market: The Company is exposed to risks arising from its activity in the field of automated parking solutions and the pace of implementation of the proposed solutions by global competitors, as set forth in Sections 1.11.5 and 1.11.6.2 above.	Low
	Standards in the products segment: The Company is exposed to risks arising from the possibility that its products or services will fail to comply with standard requirements, as set forth in Sections 1.9.21 and 1.9.22 above.	Low
	Development of new technologies and/or products: The Company is exposed to the risks involved in the development of new products and/or technologies, of which the success of their development or marketing is doubtful as set forth in Sections 1.9.4 and 1.9.16 (in relation to the products segment), 1.11.4 and 1.11.14 (in relation to the parking solutions segment) above.	Low
Risks specific to the Company	*One-off projects*: A significant portion of the Company's revenues stem from a small number of material one-off transactions, consistent with the nature of activity in the systems segment, as set forth in Section 1.10.9 above, and the parking solutions sector, as set forth in Section 1.11.9 above..	Medium
	Dependence on the Israeli market: The Company's activity in the systems segment is dependent on the Israeli market, which tends more than overseas markets to be affected by macro risks and the sector-related risks described above, and in which the demand for projects is lower than in parallel global markets.	Medium
	Rate of receipt of new projects: The Company is exposed to risks arising from volatility in the rate of receipt of new projects, which characterizes the systems segment and the parking solutions segments, as set forth in Sections 1.10.10 and 1.11.10.	Medium
	Dependence on founder and controlling shareholder: The Company has significant dependence on the continuing services of Mr. Haim Shani as set forth in Section 4.5.3 in this report.	Medium
	Leverage: The Company has commitments for the repayment of loans, *inter alia* in respect of the issuance of debentures (Series 3) pursuant to the Shelf Prospectus and Offering Report, in respect of the issuance of debentures (Series 4) pursuant to the Amended Shelf Prospectus and the 2013 Offering Report, , in respect of the debentures (Series 5) pursuant to the 2014 Shelf Prospectus and the 2014 Offering Report, including undertakings to comply with financial covenants, and in respect of loans as set forth in Section 1.17 above. The Board of Directors determined in its resolution that the Company has a sound cash flow and is able to meet its commitments, including repayment of the loans and the debentures (Series 4 and Series 5). Nevertheless, if the Company's assessments regarding its financial soundness prove erroneous, and if the Company's investments using these loans do not succeed, there is a possibility, though unlikely, that the	Medium

	Company will be unable to meet the repayment terms of the above loans. Likewise, there is no certainty that the use of the loans (*inter alia* for the purpose of developing the Company's business) will generate the desired results, which would make it difficult for the Company, despite its financial soundness, to comply with the loan repayment terms in the future. The balance of the Company's liabilities for repayment of external loans as of December 31, 2014 totals NIS 99 million, as set forth in Section 1.17 above.	
	Unregistered intellectual property: The Company has certain items of intellectual property that are not registered (although the Company also has registered intellectual property). The Company is exposed to risks arising from the non-registration of those items of intellectual property in respect of which applications were filed and are pending (for details see Section 1.14 above)	Low
	Low share prices and trading volumes: The Company's shares are traded on the Stock Exchange in Belgium at prices significantly lower than the price at which they were offered to the public in 1999 (EUR 3.72 per share), and on the Tel Aviv Stock Exchange at prices lower than those of the public offering in May 2004 (NIS 7.55 per share). There is no certainty that the price of the Company's share on the Stock Exchange will not continue to decline. Also, the volumes of trading in the Company's shares on the Stock Exchange in Belgium and on the Tel Aviv Stock Exchange are generally low and different, a fact which adversely affects their marketability.	Low
	Absence of arbitrage on the Stock Exchange in Israel and in Belgium: Even though the Company's shares are traded on the EuroNext Stock Exchange in Belgium and on the Tel Aviv Stock Exchange, it is not possible at this stage to conduct dual trading in the Company's shares on both these Stock Exchanges in real time. Under these circumstances, from time to time, differences are created in the prices of the shares on these Stock Exchanges. There is no certainty that these differences will narrow. Investors in the Company's securities, and also, under certain circumstances, the Company, could incur losses due to these differences.	Low
	Absence of a business license: The Company does not have a permit to manage a business in the property it leases in the Yavne industrial zone, as set forth in Section 1.13.4, contrary to the provisions of the Business Licensing Law, 1968, and the regulations prescribed thereunder. Operating without a license could lead to the institution of proceedings against the Company and its officers, including criminal punishment, including, *inter alia*, incarceration and/or fines as well as civil and administrative sanctions.	Low

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

The Board of Directors of the Company is pleased to submit the Board of Directors Report on the State of Affairs of the Company for the year ended December 31, 2014 (hereinafter: "the reporting period"), in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: the "Regulations").

2.1 Summarized Description of the Corporation and Its Business Environment

The Company is engaged in three areas of activity, as detailed in Section 1.3 in Chapter A above and in Note 25 to the financial statements for 2014 (Chapter C of this report), the Products segment (for details see Section 1.9 in Chapter A above), the Systems segment (for details see Section 1.10 in Chapter A above), and the Parking Solutions segment (for details see Section 1.11 in Chapter A above).

2.2 Analysis of Financial Position

2.2.1 Balance Sheet

	As of December 31		Board of Directors Explanation of Changes
	2014	2013	
	NIS thousands		
Current assets	131,977	121,387	The increase is mainly due to the following factors: An increase in trade and income receivables totaling NIS10, 207 thousand, primarily due to an increase in the volume of projects and in the progress of the implementation of projects in the Parking Solutions segment, an increase in inventory in the amount of NIS 9, 101 thousand, mainly due to the preparation of the Company to expected changes in subcontractors and adjustment of the inventory levels to the increase in the volume of activity in the Products segment. On the other hand there was there was a decrease in the inventory of work in process amounting to approximately NIS10,557 thousand, mainly deriving from the Systems segment which reflects progress in project implementations as of the reporting date only.
Non-current assets	74,070	85,176	The decrease is mainly due to the following factors: A decrease in fixed assets in the amount of NIS 20, 654 thousand, mainly resulting from the sale of real estate property as described in section 1.13.3 of Chapter A above. On the other hand there was an increase in intangible assets in the amount of

			NIS 9, 622 thousand, mainly resulting from the continued investment in development in the Products and Parking Solutions segments.
Total assets	**206,047**	**206,563**	
Current liabilities	64,587	64,247	The changes in the composition is mainly due to the following factors: An increase in trade and service-provider payables in the amount of NIS 6, 683 thousand, mainly resulting from the Products segment following an increase in activity in this segment. On the other hand, there was a decrease in the current maturities of long-term loans and debentures in the amount of NIS 3,036 thousand, mainly resulting from the repayment of part of the bank loans in the report year and the exchange of debentures (Series 3) for debentures (Series 5) as described in section 4.1.2 below, and a decrease in accounts payable and other payables of NIS 2,494 thousand, mainly due to a decrease in advances from customers in the Products segment and advance revenues in the Parking Solutions and Systems segments compared to an increase in accrued expenses in the Parking Solutions segment.
Non-current liabilities	91,800	98,553	The decrease is mainly due to the following factors: A decrease in the debentures amounting to NIS 5, 819 thousand resulting from the repayment of debentures (Series 3) during the reporting period and the repayment of bank loans in the amount of NIS1, 858 thousand .
Equity attributable to shareholders of the Company	49,660	43,763	
Total liabilities and equity	**206,047**	**206,563**	

The working capital of the Company at December 31, 2014, and December 31, 2013 was NIS 67,390 thousand, and NIS 57,140 thousand, respectively. The increase is mainly due to an increase in trade and income receivables and an increase in inventory, offset by the work in process inventory as set forth in this section.

2.2.2 Analysis of Financial Position by Operating Segments

As set forth above, the Company's main commercial operations are carried out by three business divisions/segments: the Products segment, the Systems segment and the Parking Solutions segment.

As of 2014, the management of the Company is reviewing the performance of the segments after having associated development costs to the Products and Parking Solutions segments (up to 2013 the development costs were not associated to these sectors). Accordingly, the development costs for 2013 have been associated with comparative figures for these segments.

2.2.2.1 The Products segment

	As of December 31		Board of Directors Explanation of Changes
	2014	2013	
	NIS thousands		
Assets	82,623	69,239	The increase is mainly due to the increase in inventory used in this segment and from the continuing development investment, as mentioned above.
Liabilities	20,344	13,076	The increase is mainly due to an increase in Suppliers credit in the Products segment, as mentioned above.

2.2.2.2 The Systems segment

	As of December 31		Board of Directors Explanation of Changes
	2014	2013	
	NIS thousands		
Assets	7,066	17,352	The decrease is mainly due to a decrease in the inventory of work in process resulting from the progress of projects in the abovementioned segment.
Liabilities	13,619	22,149	The decrease is mainly due to a decrease in advance revenue as a result of the progress of projects in the abovementioned segment.

2.2.2.3 The Parking Solutions segment

	As of December 31		Board of Directors Explanation of Changes
	2014	2013	
	NIS thousands		
Assets	27,741	11,890	The increase is mainly due to an increase in accounts and income receivables and from the continuing development investment in this segment, as explained above.
Liabilities	12,677	7,674	The increase in this segment is mainly due to the increase in accrued expense for the projects in this segment.

2.2.2.4 Assets and liabilities not attributable to a specific operating segment

	As of December 31		Board of Directors Explanation of Changes
	2014	2013	
	NIS thousands		
Assets	88,579	108,028	The decrease is mainly due to the sale of real estate property during the reporting period as explained above.
Liabilities	109,565	119,774	The decrease is mainly due to the repayment of debentures (Series 3) and bank loans, as explained above.

2.2.3 Operating Results

2.2.3.1 Below is a summary of the Consolidated Quarterly Profit & Loss statements for 2014 (Reg. 10A)

	1-3/2014	4-6/2014	7-9/2014	10-12/2014	1-12/2014
	NIS in Thousands				
Revenues	40,548	39,797	42,185	48,781	171,311
Cost of revenues	29,208	27,692	27,900	32,766	117,566
Gross profit	11,340	12,105	14,285	16,015	53,745
Development expenses, net	1,301	1,603	1,607	1,591	6,102
Sales & marketing expenses	4,395	4,585	5,474	6,203	20,657
Administrative & general expenses	2,626	2,670	2,582	3,270	11,148
Other revenues (expenses)	(2,191)	-	33	8	(2,150)
Profit from ordinary operations	827	3,247	4,655	4,959	13,688
Financing expenses, net	385	2,012	4,352	1,782	8,531
Profit before income taxes	442	1,235	303	3,177	5,157
Income taxes	190	409	145	1,067	1,811
Profit for the period	252	826	158	2,110	3,346

	As of December 31			Board of Directors Explanation of Changes
	2014	2013	2012	
	NIS thousands			
Revenues	171,311	156,179	142,126	The increase in 2014 compared to 2013 is mainly due to the revenues generated by the Parking Solutions segment as described below. The increase in 2013 compared to 2012 is mainly due to revenues from the Systems segment
Cost of revenues	117,566	112,728	105,322	
Gross profit (Percentage of Gross profit)	53,745 (31.4%)	43,451 (27.8%)	36,804 (25.9%)	The changes in the gross profit margins of the Company are mainly due to the change in the revenue mix of the various activities in each of the years (the gross profit margins in each operating segment are different) for details and explanations to the change in the gross profit margins in the operating segments of the Company see the analysis of business results by operating segments in section 2.2.4 below.
Development expenses, net	6,102	5,706	5,576	In the reporting period an intangible asset in the amount of NIS17,842 thousand was recognized in respect of the development costs compared with approximately NIS15,540 thousand and NIS13,977 thousand in 2013 and 2012, respectively. The total development costs during the reporting period reflect the continued development of technologies required to support the Company's operations, mostly in the Parking Solutions segment with adjustments of human resources in the development team in order to provide a response to its business plans in the various activity segments.
Sales & marketing expenses	20,657	17,056	17,616	An increase in sales and marketing expenses was recorded in 2014 compared to 2013 mainly due to an increase in sales and marketing expenses in the Products segment the purpose of which was to provide a response to the business plans of the Company in this segment. No significant change was recorded in these expenses in 2013 compared to 2012.
Administrative & general expenses	11,148	11,240	8,828	No material change was recorded in 2014 compared to 2013. The increase in 2013 compared to 2012 is due to one-time compensation (for the refund of legal costs) in the amount of NIS1.1 million recorded in 2012 which was ruled in favor of the Company as part of the finalization of the legal proceedings and the fixed expenses required for the support operation of the Parking Solutions segment, as described below.
Other expenses	2,150	7	-	This section consists of a capital loss from the sale of real estate property in the first quarter of 2014 as specified in section 1.13.3 of Chapter A above.
Profit from ordinary operations	13,688	9,442	4,784	

	As of December 31			Board of Directors Explanation of Changes
	2014	**2013**	**2012**	
	NIS thousands			
Financing expenses, net	(8,531)	(7,832)	(3,498)	The change in 2014 is mainly due to a one-time expense of approximately NIS3 million due to a loss resulting from the early repayment of debentures (Series 3). On the other hand, there was a decrease in the revaluation of debentures since in 2014 there was a decline in the CPI (compared to an increase in the CPI in 2013). The change in 2013 compared to 2012 is mainly due to the registration of a revaluation and exchange rate differences on embedded derivatives and changes in the expenses of long-term bank credit which were caused by trends in the exchange rate of the Euro against the shekel in these years; the registration of the revaluation and interest on marketable securities deriving from fluctuations in the rates of the marketable securities traded on the stock exchange; and changes in credit expenses with respect to debentures, deriving mainly from an increase in the volume of debentures between these periods.
Profit before tax benefit (Taxes on Income)	5,157	1,610	1,286	
Tax benefit (Taxes on Income)	(1,811)	(1,444)	114	Taxes on income resulting from changes in the balances of deferred taxes (for further details see Note 24 to the financial statements for 2014).
Annual profit	3,346	166	1,400	

2.2.3.2 Revenues by operating segments

	As of December 31			Board of Directors Explanation of Changes
	2014	2013	2012	
	NIS thousands			
Operating segment				
Products	108,442	95,449	96,375	The increase in revenues during the reporting period in the Products segment is mainly the result of enhanced marketing activity in several selected markets and the launching of new products. In the estimates of the Company, the decrease recorded in revenues in the Products segment in 2013 compared to 2012 is mainly due to the effect of the decline in the major sales currencies against the shekel.
Percentage of total company revenues	63%	61%	68%	
Systems	37,835	55,096	44,684	The changes and volatility in income characterizes the Systems segment, and they derive from the changes in the actual rate of progress of the construction of projects in this segment, and especially the changes in the design and the construction of logistics systems for customers in Israel (for further details see section 1.10.8 of Chapter A above), and from the rate of the receipt of orders from customers to construct systems in the reporting period (for details see section 1.10.6.2 of Chapter A above).
Percentage of total company revenues	22%	35%	31%	
Parking Solutions	24,641	5,195	664	The increase registered in the revenues from the Parking Solutions segment in the reporting period compared to the parallel periods is mainly due to an increase in the volume of projects and from the actual progress of the construction of several automated parking systems.
Percentage of total company revenues	14%	3%	1%	

2.2.4 Analysis of Business Results by Operating Segments

The details of the results of the various segments are set forth below.

	As of December 31			Board of Directors Explanation of Changes
	2014	2013	2012	
	NIS thousands			
Operating Segment				
Products	26,535	20,482	21,859	In the estimates of the Company, the increase in the results of this segment in the reporting period compared to last year is mainly due to the increase in the revenues of the Company in this segment plus the increase in the gross profit resulting from the efficiency measures taken by the Company, offset by the increase in sales and marketing expenses attributed to the segment. The moderate decrease in the results of this segment in 2013 compared to 2012 is due to a decrease in gross profit which in the estimates of the Company derives from the effect of the decline in the major sales currencies against the shekel, offset by a decrease in sales and marketing expenses attributed to this segment.
Systems	4,737	5,002	(6,936)	No material change was recorded in 2014 compared to 2013. In the estimates of the Company, the increase in profits in this segment in 2013 was due to a higher mix than 2012 of the revenue from the construction of systems with a higher embedded gross profit, a decrease in fixed expenses plus a decrease in the sales and marketing expenses attributed to this segment.
Parking Solutions	(7,109)	(7,664)	(2,754)	In the estimates of the Company, the operating loss in this segment in 2014 and 2013 is mainly due to the continuing recruiting of human resources in the development and establishment of the operational and marketing infrastructure required for the activity in this segment, in accordance with the plans of the Company.

2.3 Liquidity and Financing Sources

As of December 31, 2014, 2013 and 2012, the balance of cash, cash equivalents and marketable securities totaled NIS 66,808 thousand, NIS 64,667 thousand and NIS 49,699 thousand, respectively. Listed below are the explanations for the changes in cash flows:

	As of December 31			Board of Directors Explanation of Changes
	2014	2013	2012	
	NIS thousands			
Cash flow from operations	14,264	3,332	22,314	The improvement in cash flow in 2014 is mainly due to an increase in annual profit with the defusing of non-cash expenses and negative cash flow in respect of the increase in working capital (mainly an increase in trade receivables, income receivables and inventory, offset by a decrease in the level of work in process inventory and increase in supplier credit). The decrease in cash flow from operations in 2013 is mainly due to the decrease in working capital (decrease in supplier credit and creditors and an increase in accounts receivable and inventory) compared to 2012.
Cash flows from investments	454	(12,579)	(8,574)	The cash flow in 2014 is mainly due to the sale of real estate property, offset by investments in development properties. The cash flow used for investment in 2013 and 2012 derives mainly from investments in development properties, as explained above (see sections 1.9.16 and section 1.11.14 of Chapter A above), offset by the sale of marketable securities, net.
Cash flow from financing activities	(14,330)	29,002	(11,051)	The negative cash flow in 2014 is mainly due to the repayment of debentures, including fully repayments of (Series 3) and loans repayments, offset by the issue of debentures (Series 5). The positive cash flow in 2013 was mainly due to the issue of debentures (Series 4), offset by the repayment of debentures (Series 2 and 3) and loans repayments. The negative cash flow in 2012 was mainly due to the repayment of debentures (Series 2) and the repayment of long-term loans from banks.

As of December 31, 2014 the Company had credit facilities available for operating activities totaling NIS 28.5 million, of which NIS 27.6 million were utilized. As of December 31, 2013 the Company had credit facilities available for operating activities totaling NIS 26.7 million, of which NIS 26.3 million were utilized. The credit facilities as of said dates were primarily used to provide guarantees to secure the obligations of the

Company and the subsidiaries of the Company in projects carried out in the Systems segment and in the Parking Solutions segment.

2.4 Exposure to Market Risks and Management Thereof

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

2.5 Projected Cash Flow

The Board of Directors of the Company determined, after reviewing the warning signs set forth in Regulation 10 (b) (14) of the Regulations pertaining to the disclosure of projected cash flow for financing the repayment of corporate liabilities, that none of the warning signs is applicable, that the Company is not experiencing liquidity difficulties and that it is able to meet its obligations, including full repayment of obligations in respect of debentures (Series 4 and 5). The Board of Directors performs such a review every quarter, along with the approval of the quarterly financial statements published by the Company.

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

For details of the Company's liabilities by maturity dates, as of December 31, 2014, see the Immediate Report T-126 dated March 12, 2015, published by the Company simultaneously with the publication of this report, hereby included herein by way of reference.

2.7 Corporate Governance Aspects

2.7.1 Details on the Company's Internal Auditor

(a) The Company's internal auditor is CPA Eyal Horowitz (lawyer) who has held this position since June 2000. His appointment was approved at the meetings of the Audit Committee and Board of Directors of the Company on June 18, 2000. To the best of the Company's knowledge, CPA Horowitz complies with the provisions of Section 146(b) of the Companies Law and the provisions of Section 8 of the Internal Audit Law, 1992 (hereinafter: "**the Internal Audit Law**"). CPA Horowitz's qualifications for his position as the Company's internal auditor are his education as a CPA and lawyer and his involvement in auditing as a CPA and as an internal auditor of public companies since 1991. The internal auditor was appointed after the Audit Committee and the Board of Directors reviewed his experience and track-record in internal

auditing of other public companies, considering, *inter alia*, the type and size of company as well as the scope and complexity of its operations.
The Company's internal auditor has no business relations or other affiliations with the Company or its controlling shareholder, nor – to the best of the Company's knowledge – with affiliated entities.

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

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

(d) <u>The work plan and the considerations in its preparation</u>: The audit work plan of the Company is an annual plan whereby the considerations in its determination are mainly: (1) proposals of the internal auditor; (2) proposals of members of the Audit Committee and Board of Directors of the Company, based on, among others, the proposals of the internal auditor, internal audit subjects in past years, the recommendations of the Company's legal advisor and issues discussed at regular meetings of the Audit Committee and Board of Directors of the Company; (3) the size of the Company, its organizational structure and the nature and scope of its business activities; and (4) the risk survey conducted by the Company and the required adjustments, as necessary. The Audit Committee discusses and approves the annual work 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 has discovered by chance during the execution of the work plan. If the internal auditor decides to conduct a comprehensive review of an issue or area not included in the list of issues approved by the Audit Committee for the annual or periodic work plan, he recommends to the Chairman of the Audit Committee to amend the plan, and the latter raises the matter for discussion and approval during Audit Committee meetings.

(e) From time to time, as necessary, the audit plan also addresses the Company's overseas operations. During the reporting period the internal auditor started an audit on the processes and interactions with investee companies (including foreign investee companies).

(f) During the reporting period, 115 hours were spent by the internal auditor and his staff on internal auditing of the Company in Israel. The Board of Directors believes that this number of hours is consistent with the activity reviewed by the auditor. The auditor is allowed flexibility in shifting hours from one issue to another. Also, since his work is carried out on a regular and continuous basis, the internal auditor can shift hours from one year to the next to enable suitable in-depth and exhaustive coverage of the reviewed issues at his discretion. Furthermore, the scope of employment of the internal auditor is determined each year together with the approval of the work plan, taking into consideration, *inter alia*, the scope of the work plan for the relevant year, its complexity and the sensitivity of the issues reviewed during that year.

Hours	2014	2013
Hours spent on internal audit of the Company with respect to its operations in Israel.	21	150
Hours spent on internal audit of investee companies with respect to their operations in Israel.	38	0
Hours spent on internal audit of the Company and investee companies with respect to their operations overseas.	56	0

To date the planned number of annual hours has not been reduced; nevertheless the auditor shifts hours between issues and from one year to another. Therefore, the balance of the unused quota of hours approved for the internal auditor in 2014 will be utilized in 2015.

(g) The internal auditor, pursuant to his notice to the Company dated February 17, 2005, performs the internal audit in accordance with generally accepted professional standards, as stated in Section 4(b) of the Internal Audit Law, 1992, which are based on the professional standards for internal auditing of the Israeli Institute of Internal Auditors. In the Board of Directors' opinion, the internal auditor meets the requirements stipulated by the above standards, having regard to the internal auditor's professional aptitude and skills, the duration of his employment by the Company, his familiarity with the Company, and the manner in which he prepares and submits the audits and presents their findings to the Company.

(h) <u>Review of material transactions</u>: The internal auditor did not review the material transactions as the term is defined in Section 5(f) of the Fourth Schedule to the Regulations, which the Company executed during the reporting period, including the process of their approval.

(i) All documents and information requested by the internal auditor, including with respect to operations of subsidiaries, are provided to him as stipulated by Section 9 of the Internal Audit Law, and he is allowed free access to such information, including continuous, unmediated access to Company information systems, including financial data.

(j) Below are the dates on which a written report on the internal auditor's findings was submitted to the Chairman of the Board of Directors and the Chairman of the Audit Committee, and the dates on which a discussion was held on the reports by the Audit Committee and/or Board of Directors of the Company.

Issue	2014 reports	2013 reports
Report No 1:		
Date of submission of internal auditor’s report	30/11/2014	20/3/2014
Date of discussion by Audit Committee	25/12/2014	25/3/2014
Date of discussion by Board of Directors	25/12/2014	25/3/2014

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

(l) The internal auditor’s fee for services rendered in 2014 amounted to NIS 25,000. The internal auditor is paid an hourly rate of NIS 218. In the Board of Directors' opinion, the remuneration of the internal auditor does not influence his professional judgment, considering, *inter alia*, the Board of Directors' impression of the manner in which he performs the internal audit work at the Company, the level of detail, accuracy and depth of the audit findings submitted by him to date, as well as the amount of his overall income relative to his fee as the Company’s internal auditor, to the best of the Company's knowledge.

2.7.2 Directors Having Accounting and Financial Skills

For details on directors having accounting and financial skills, see section 4.10 below.

2.7.3 Independent directors

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

2.7.4 Donations policy

The Company has no policy for making charitable donations.
In 2014, the Company donated NIS 75 thousand (an amount that is not material to the Company).

2.7.5 Disclosure Regarding Fee of Audit Accountants

The accountants of the Company and its subsidiaries in Israel are Amit, Halfon, CPA, of Ramat Gan, Israel. In 2013, Amit, Halfon were also appointed as the accountants of the subsidiaries Unitronics Inc. and Unitronics Systems Inc., replacing Clarke, Snow & Riley

LLP of Quincy, MA, USA, the previous accountants of these subsidiaries. The fee of Amit, Halfon for the services provided to these subsidiaries is determined based on the scope of work required to render the services. The fee of Amit, Halfon, CPA, with respect to Unitronics (1989) (R"G) Ltd. is determined by the Board of Directors of the Company under the authority vested in it by the General Meeting of Shareholders in the Company which appointed the accountants.

Below are details of the total remuneration to which the Company's audit accountants are entitled in respect of audit and other services[1]:

CPA	Company to which service was rendered	Nature of service	2014 NIS in thousands	2014 Work hours	2013 NIS in thousands	2013 Work hours
Amit, Halfon, CPA, Ramat Gan, Israel	Unitronics (1989) (R"G) Ltd. and its subsidiaries	Audit services, audit-related services and tax services	359	1,960	320	1,480
Clarke, Snow & Riley LLP, Quincy, MA, USA	Unitronics Inc. and Unitronics Systems Inc.	Audit services, audit-related services and tax services	-	-	145	58
		Consulting services	-	-	-	-

2.8 Disclosure Requirements in Connection with Financial Reporting

2.8.1 Critical accounting estimates:

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

2.9 Specific Disclosure to Debenture Holders

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

2.9.1.1 Debentures (Series 3)

On October 30, 2014, the Company implemented a full early repayment of the outstanding debentures (Series 3). Following this payment, all of the obligations of the Company in respect of debentures (Series 3) were fully met, and after that date no debentures (Series 3) of the Company remained outstanding.

Listed below is the key data on the Company's outstanding debentures as of the report publication date:

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

2.9.1.2 Debentures (Series 4)

(1)	Security	Debentures (Series 4)
A	Issue date	January 2013
B	Total par value upon issuance	53,125,000
C	Par value as of the report date	53,125,000
D	Par value in accordance with linkage terms – as of the report date	53,984,000
E	Accumulated interest as of the report date	1,212,000
F	Liability carrying amount as of the report date	52,930,000
G	Market value	56,047,000
H	Interest type and description	5.4% annual interest
I	Payment dates of the principal balance	Six unequal annual installments payable on January 31st of each of the years 2015 through 2020, at the following rates according to chronological order of years: (a) 12.5% of principal; (b) 12.5% of principal; (c) 12.5% of principal; (d) 20.5% of principal: (e) 21% of principal; (f) 21% of principal[2].
K	Interest payment dates	On each 31st of January and July commencing on January 31, 2015 through January 31,2020
L	Details of principal and interest linkage	Principal and interest linked to the consumer price index Base index – December 2012 index, without protection
L	Are debentures convertible	Not convertible
M	Is corporation entitled to early redemption	Entitled (for details regarding the terms of realization of the right of the Company to carry out early redemption, see section 12 of the Shelf Offering Report dated January 24, 2013, Reference No. 2013-01-021699) (hereinafter: the "**Offering Memorandum 2013**")
N	Is payment of obligation guaranteed by deed of trust	No
O	Is this liability material to the Company	Yes
(2)	Trustee for debenture series with trust company; contact information of trustee	Mishmeret Trust Services Ltd. 48 Menachem Begin St., Tel Aviv 66184 Tel. 03-6374352, Fax 03-6374344 Email: ramis@bdo.co.il

(5+6) As of the end of the reporting year and in the course thereof, the Company was, to the best of its knowledge, in compliance with all the terms, conditions and obligations contained in the deed of trust for debentures (Series 4); the Company was not in breach of any obligation or condition set forth in the deed of trust, and there was no cause for declaring the debentures immediately due and payable.

(8) On February 12, 2013, a pledge on deposit monies in a bank account was registered with the Companies Registrar, in an amount equal to the semi-annual interest on debentures (Series 4), to secure the payment of interest on the debentures. As long as the Company has an outstanding balance of debentures (Series 4), the Company and

[2] On February 1, 2015, the Company paid the first of six payments of the principal of the debentures (Series 4). For further details see the Immediate Report of the Company on its equity situation and the securities registrations of the corporation and the changes thereto dated February 1, 2015, Reference No. 2015-01022624, included herein by way of reference.

any subsidiary (existing on the date of signature of the trust deed and any additional subsidiary formed or acquired up to the date of repayment of all debentures (Series 4), if at all) shall not create any general floating charge on its assets, in favor of any third party, without the prior written consent of a simple majority of the Meeting of the debenture holders. It should be emphasized that the Company and/or any subsidiary shall be entitled to create specific charges of any rank on all or part of their property, including cash and cash equivalents, in favor of financing entities providing financing for the purchase of any asset or equipment against specific charges of any rank, including a floating charge on any specific asset/s, and *inter alia* for the purchase of building construction services, including for the purpose of replacing financing entities that hold specific charges on the date of the offering report with other entities, without need of the consent of the Meeting of holders of debentures (Series 4).

Under the terms of issue of the debentures (Series 4) the Company assumed, *inter ali*a, the following obligations:

- Dividend distribution - The Company has undertaken that during the period in which the debentures (Series 4) are in circulation, it will not distribute a dividend that exceeds 30% of the net annual (calendar) profit accrued during this period, attributed to the shareholders of the Company in accordance with the audited consolidated financial statements of the Company, the last statements published prior to the date of the decision of the Company to distribute the dividend, unless the Company has received the prior consent of the holders of the debentures (Series 4) passed by a special resolution at a meeting of debenture holders convened in accordance with the provisions of the Second Schedule to the Deed of Trust of Debentures (Series 4). For further details regarding the above limitations, see section 11.1 of the 2013 Offering Memorandum).
- The ratio of the net financial debt to net CAP – The Company has undertaken that from the date of the listing for trading of the debentures (Series 4) and for as long as there are debentures (Series 4) outstanding, the ratio of the net financial debt of the Company to the net CAP of the Company (solo), in accordance with its audited or reviewed (as applicable) consolidated financial statements (solo) relating to the financial statements of the Company as of June 30 and December 31, shall not exceed 80%. If the Company deviates from this undertaking, at the time of any examination, the interest rate payable by the Company to the holders of the debentures (Series 4) on the date of the next payment following the date of the deviation shall be increased by 0.5% per annum only, above the interest rate specified in the tender, and this for the period of the deviation. If the Company deviates from this undertaking on the date following the date of the previous examination, the interest rate payable by the Company to the holders of the debentures (Series 4) shall be increased by an additional 0.5% per annum above the previous interest rate, as from the date of the additional breach until the end of the deviation period. If the previously mentioned deviation is discovered on two consecutive examination dates in a manner so that this ratio is equal to or higher than 85%, then this deviation shall constitute cause for demanding immediate repayment of the

outstanding balance of the debentures (Series 4). For further details regarding the above limitation, see section 11.2 of the Offering Memorandum 2013.

- The net financial debt to EBITDA – The Company has undertaken that from the date of the listing for trading of the debentures (Series 4) and for as long as there are debentures (Series 4) outstanding, the ratio of the net financial debt of the Company to the EBITDA of the Company in accordance with its audited or reviewed (as applicable) (consolidated) financial statements, relating to the financial statements of the Company as of June 30 and December 31, shall not exceed 10. If the Company deviates from this undertaking, at the time of any examination, the interest rate payable by the Company to the holders of the debentures (Series 4) on the date of the next payment following the date of the deviation shall be increased by 0.5% per annum only, above the interest rate specified in the tender, and this for the period of the deviation. If the Company deviates from this undertaking on the date following the date of the previous examination, the interest rate payable by the Company to the holders of the debentures (Series 4) shall be increased by an additional 0.5% per annum above the previous interest rate, as from the date of the breach until the end of the additional deviation period. If the aforesaid deviation is discovered on two consecutive examination dates in a manner so that this ratio is equal to or higher than 12, then this deviation shall constitute cause for demanding immediate repayment of the outstanding balance of the debentures (Series 4). For further details regarding the above limitation, see section 11.3 of the Offering Memorandum 2013.
- Equity limitation - The equity of the Company under the audited or reviewed (as applicable) financial statements (solo) of the Company relating to the solo financial statements of the Company as of June 30 and December 31 shall be no less than NIS 20,000,000. If the Company deviates from this undertaking at the time of any examination, the interest rate payable by the Company to the holders of the debentures (Series 4) on next interest payment date following the publication of the last financial reports indicating the deviation, shall be increased by 0.5% per annum only, above the interest rate specified in the tender, and this for the duration of the deviation period. If the Company deviates from this undertaking on the date following the date of the previous examination the interest rate payable by the Company to the holders of the debentures (Series 4) shall be increased by an additional 0.5% per annum above the previous interest rate, as from the date of the breach until the end of the additional deviation period. If the previously mentioned deviation is discovered on two consecutive examinations in a manner so that the equity is less than NIS 15,000,000, then this deviation shall constitute cause for demanding immediate repayment of the outstanding balance of the debentures (Series 4). For further details regarding the above limitations, see section 11.4 of the Offering Memorandum 2013.
- The undertaking of the Company to refrain from creating pledges - The Company has undertaken not to pledge all of its property with general floating charge and to act so that all of its subsidiaries (at the date of the signing of the Deed of Trust) and any additional subsidiary of the Company that shall be

established or acquired up to the date of full repayment of the debentures (Series 4), (if any), and will not create a pledge as aforesaid. For details regarding the above limitations, see section 11.5 of the Offering Memorandum 2013.

The Company shall be entitled (but not obligated) to perform, at its sole discretion, early repayment in full or part of the debentures (Series 4) in accordance with certain terms and limitations as set forth in the Amended Shelf Prospectus and the Offering Memorandum 2013.

In the case of certain events, and under certain terms, the Trustee of debentures (Series 4) shall have cause for immediate repayment of debentures (Series 4). Among the applicable events, the following can be included in brief: a material deterioration in the business of the Company where there is a real threat that the Company will be unable to repay the debentures on time; the imposition of an attachment on the assets of the Company, the performance of an execution against the assets of the Company, the appointment of a liquidator or a temporary or permanent receiver of the assets of the Company, which were not removed and / or canceled within 45 days; the sale of the main assets of the company; If Mr. Haim Shani ceases to be a controlling shareholder in the Company, directly or indirectly, without having received the approval of the holders of the debentures (Series 4) for the transfer of control; a fundamental breach of the terms of the debentures and Deed of Trust (Series 4) which are not corrected within 14 days from the date that the Trustee advised the Company of the breach; a breach of any of the financial covenants set forth in section 11 of the Offering Memorandum 2013, in which it is explicitly stated that the breach thereof is cause for immediate repayment. For details regarding all of the causes available to the Trustee for the immediate repayment of debentures (Series 4), see section 18.1 of the Offering Memorandum 2013.

2.9.1.3 Debentures (Series 5)

(1)	Security	Debentures (Series 5)
A	Issue date	September 2014
B	Total par value upon issuance	40,000,000
C	Par value as of the report date	40,000,000
D	Par value in accordance with linkage terms – as of the report date	40,000,000
E	Accumulated interest as of the report date	691,000
F	Liability carrying amount as of the report date	38,760,000
G	Market value	40,004,000
H	Interest type and description	5.8% fixed annual interest
I	Payment dates of the principal balance	9 unequal annual installments payable on August 31st of each of the years 2015 through 2023 (inclusive), at the following rates according to chronological order of years: (a) 10% of principal; (b) 10% of principal; (c) 5% of principal; (d) 5% of principal: (e) 5% of principal; (f) 5% of principal; (g) 20% of principal; (h) 20% of principal; (i) 20% of principal
K	Interest payment dates	On each 28th of February and 31st of August in the years 2015 through 2023 inclusive, except for the first payment which shall be effective on March 1, 2015.
L	Details of principal and interest linkage	Unlinked
L	Are debentures convertible	Not convertible
M	Is corporation entitled to early redemption	Entitled (for details regarding the terms of realization of the right of the Company to carry out early repayment, see section 8.4 of the Shelf Offering Report dated September 10, 2014, Reference No. 2014-01-155406) (hereinafter: the "**Offering Memorandum 2014**")
N	Is payment of obligation guaranteed by deed of trust	No
O	Is this liability material to the Company	Yes
(2)	Trustee for debenture series with trust company; contact information of trustee	Hermetic Trust Services (1975) Ltd. 113 Hayarkon St., Tel Aviv Tel. 03-5274867, Fax 03-5271736 Email: hermetic@hermetic.co.il

(5+6) As of the end of the reporting year and in the course thereof, the Company was, to the best of its knowledge, in compliance with all the terms, conditions and obligations contained in the Deed of Trust debentures (Series 5); the Company was not in breach of any obligation or condition set forth in the deed of trust, and there is no cause for declaring the debentures immediately due and payable.

Under the terms of issue of debentures (Series 5) the Company assumed, *inter ali*a, the following obligations:

- Dividend distribution - The Company has undertaken that during the period in which the debentures (Series 5) are in circulation, it will not distribute a dividend, as this term is defined in the Companies Law 1999, that exceeds 30% of the net annual (calendar) profit in the last calendar year ended prior to implementation of the distribution, attributed to the shareholders of the Company in accordance with the audited consolidated financial statements of the Company, the last statements published prior to the date of the decision of the Company to distribute the dividend, unless the Company has received the prior consent of the holders of the debentures (Series 5) passed by a special resolution at a meeting of debenture holders convened in accordance with the provisions of the Second Schedule to the Deed of Trust of the Debentures (Series 5). For further details regarding the above limitations, see section 1 of Appendix 5 to the Deed of Trust of debentures (Series 5) published as part of the Offering Memorandum 2014).

- The ratio of the net financial debt to net CAP – The Company has undertaken that from the date of the listing for trading of the debentures (Series 5) and for as long as there are debentures (Series 5) outstanding, the ratio of the net financial debt of the Company to the net CAP of the Company (solo), in accordance with its audited or reviewed (as applicable) consolidated financial statements (solo), relating to the financial statements of the Company as of June 30 and December 31, shall not exceed 70%. If the Company deviates from this undertaking, at the time of any examination, the interest rate payable by the Company to the holders of the debentures (Series 5) on the date of the next payment following the date of the deviation shall be increased by 0.5% per annum only, above the interest rate specified in the tender, and this for the period of the deviation. If the Company deviates from this undertaking on the date following the date of the previous examination, the interest rate payable by the Company to the holders of the debentures (Series 5) shall be increased by an additional 0.5% per annum above the previous interest rate, as from the date of the additional breach until the end of the deviation period. If the previously mentioned deviation is discovered on two consecutive examination dates in a manner so that this ratio is equal to or higher than 75%, then this deviation shall constitute cause for demanding immediate repayment of the outstanding balance of the debentures (Series 5). For further details regarding the above limitation, see section 2 of Appendix 5 to the Deed of Trust of debentures (Series 5) published as part of the Offering Memorandum 2014.
- Equity limitation - The equity of the Company under the audited or reviewed (as applicable) financial statements (solo) of the Company relating to the solo financial statements of the Company as of June 30 and December 31 shall be no less than NIS 25,000,000. If the Company deviates from this undertake, at the time of any examination, the interest rate payable by the Company to the holders of the debentures (Series 5) on next interest payment date following the publication of the last financial reports indicating the deviation, shall be increased by 0.5% per annum only, above the interest rate specified in the tender, and this for the duration of the deviation period. If the Company deviates from this undertaking on the date following the date of the previous examination the interest rate payable by the Company to the holders of the debentures (Series 5) shall be increased by an additional 0.5% per annum above the previous interest rate, as from the date of the breach until the end of the additional deviation period. If the previously mentioned deviation is discovered on two consecutive examinations in a manner so that the equity is less than NIS 20,000,000, then this deviation shall constitute cause for

demanding immediate repayment of the outstanding balance of the debentures (Series 5). For further details regarding the above limitations, see section 3 of Appendix 5 to the Deed of Trust of debentures (Series 5) published as part of the Offering Memorandum 2014.

- The net financial debt to EBITDA – The Company has undertaken that from the date of the listing for trading of the debentures (Series 5) and for as long as there are debentures (Series 5) outstanding, the ratio of the net financial debt of the Company to the EBITDA of the Company in accordance with its audited or reviewed (as applicable) consolidated financial statements relating to the 12 month period preceding the date of examination shall not exceed 10. An examination of the compliance of the Company to the ratio of the net financial debt to EBITDA shall be carried out twice every calendar year, on the date of publication of the financial statements as of June 30 and December 31 of each year. If the Company deviates from this undertaking, at the time of any examination, the interest rate payable by the Company to the holders of the debentures (Series 5) on the date of the next payment following the date of the deviation shall be increased by 0.5% per annum only, above the interest rate specified in the tender, and this for the period of the deviation. If the Company deviates from this undertaking on the date following the date of the previous examination, the interest rate payable by the Company to the holders of the debentures (Series 5) shall be increased by an additional 0.5% per annum above the previous interest rate, as from the date of the breach until the end of the additional deviation period. If the aforesaid deviation is discovered on two consecutive examination dates in a manner so that this ratio is equal to or higher than 12, then this deviation shall constitute cause for demanding immediate repayment of the outstanding balance of the debentures (Series 5). For further details regarding the above limitation, see section 4 of Appendix 5 to the Deed of Trust of debentures (Series 5) published as part of the Offering Memorandum 2014.
- The undertaking of the Company to refrain from creating pledges - The Company has undertaken not to pledge all of its property with general floating charge and to act so that all of its subsidiaries (at the date of the signing of the Deed of Trust) and any additional subsidiary of the Company that shall be established or acquired up to the date of full repayment of the debentures (Series 5), (if any), and will not create a pledge as aforesaid. For details regarding the above limitations, see section 5 of Appendix 5 to the Deed of Trust of debentures (Series 5) published as part of the Offering Memorandum 2014.

The Company shall be entitled (but not obligated) to perform, at its sole discretion, early repayment in full or part of the debentures (Series 5) with certain terms and limitations as set forth in the Amended Shelf Prospectus 2014 and the Offering Memorandum 20143.

In the case of certain events, and under certain terms, the Trustee of debentures (Series 5) shall have cause for immediate repayment of debentures (Series 5). Among the applicable events, the following can be included in brief: A material deterioration in the business of the

Company compared to the situation of the Company on the date of the issue and there is a real threat that the Company will be unable to repay the debentures on time; The debentures were not paid on time or another material undertaking provided in favor of the holders was not fulfilled; The Company did not publish a financial statement that it is required to publish by law, within 30 days of the last day from which it is required to publish the statement; The debentures have been delisted; There is a real threat the Company will not be able to fulfill its material obligations to the holders; The Company has terminated or has announced its intention to terminate its payments; The Company has breached one of the financial covenants specified in Appendix 5 of the Deed of Trust debentures (Series 5) published under the Offering Memorandum 2014, in which it is explicitly stated that the breach thereof is cause for immediate repayment. For details regarding all of the causes available to the Trustee for the immediate repayment of debentures (Series 5), see section 8 of the Offering Memorandum 2014.

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

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

The Compensation Committee and the Board of Directors of the Company, at its meetings held on March 10, 2015 and March 12, 2015, respectively, conducted a review and found that the compensation of all the Company's senior officers, detailed pursuant to Regulation 21 in Section 4.5 in Chapter D of this report, conforms to the Company's compensation policy (for further details see Section 4.5.2 in Chapter D of this report). For the purpose of the discussion, the members of the Committee and the Board of Directors were presented, ahead of the discussion, with relevant data regarding each officer and interested party, as prescribed in Regulation 21. Furthermore, additional information was submitted to the members of the Compensation Committee and the Board of Directors in connection with each of the senior officers, which, in the opinion of the Board of Directors of the Company, would allow for an adequate review, including the terms of the relevant employment agreements, details of the senior officers' activities during the reporting year, and in general, and comparative data on compensation in companies with similar attributes to those of the Company, which operate in the same area and have the same scope of activity.

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

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

As part of the previously mentioned review, the Compensation Committee and the Board of Directors reviewed the employment terms of each officer individually, based on the following criteria:

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

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

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

Regarding Mr. Yair Goldberg, the Compensation Committee and the Board of Directors determined that in view of his proven skills and achievements, his employment terms are fair and reasonable.

Regarding Mr. Daniel Nygate, the Compensation Committee and the Board of Directors determined that in view of his proven professional experience and achievements, his employment terms are fair and reasonable.

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

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

2.11.1 Preparation of the Financial Statements

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

2.11.2 <u>Balance Sheet Committee for the review of the financial statements</u>

With the coming into effect of the Companies Regulations (Procedure for the Approval of Financial Statements), 2010, an Audit Committee was appointed by the Board of Directors of the Company (at its meeting on November 11, 2010) to also serve as a Balance Sheet Committee for the review of the financial statements (hereinafter: the "**Committee**"), in accordance with the composition and the significance set forth in these regulations, with respect to the financial reports as of December 31, 2010 and thereafter. At the reporting date, the directors serving on this committee are as follows:

Name	Zvi Livne, CPA	Joel Sela, CPA	Moshe Baraz, CPA
Is the director an independent or external director	No	External director	External director
Is the director the Chairman of the Committee for the review of the financial statements	No	No	Yes
Does the director have accounting and financial expertise	Yes	Yes	Yes
Did the director provide a statement prior to his appointment	Yes	Yes	Yes

* For the education and experience details of the members of the Committee for the review of the financial statements, see section 4.10 of Chapter D below.

A meeting of the committee was held on March 10, 2015 as part of the approval of the financial statements as of December 31, 2014. A comprehensive fundamental discussion was conducted on the material issues for the purpose of formulating recommendations to the Board of Directors for their discussions on the approval of the financial statements; this was followed by the committee's approval of their recommendations.

The following were invited and attended a meeting of the committee held on March 10, 2015: members of the committee (CPA Yoel Sela, CPA Zvi Livne, and CPA Moshe Baraz), the other members of the Board of Directors (Messrs. Haim Shani, Bareket Shani and Edna Ramot), CFO Gabi Badusa, CPA Avi Peleg, Controller, Atty. Nir Weisberger, Legal Counsel of the Company, CPA Haim Halfon from the Auditing firm of the Company and Mr. Miguel Aljanati from the office of the Internal Auditor of the Company.

The Committee discussed and formulated its recommendations to the Board of Directors on all of the following: estimates and assumptions made in connection with the financial statements; the integrity and suitability of the disclosures in the financial statements; the adopted accounting policies and the accounting treatment applied to material issues; valuations including the underlying assumptions and estimates. The draft financial statements and the recommendations of the committee were submitted to the Board of Directors for review two business days prior to the convening thereof to discuss the financial statements, which in the opinion of the Board of Directors is a reasonable period of time to submit the recommendations to the Board of Directors.

2.11.3 **<u>Company Board of Directors</u>**

The Company considers the Board of Directors as the entity exercising ultimate control over the Company's financial statements. For the details of the members of the Board of Directors and their respective duties in the Company see section 4.10 of Chapter D of this report.

After the directors reviewed the financial statements, a meeting of the Board of Directors was held for presentation and discussion of the statements. At a meeting on March 12, 2015, the Company management reviewed the main data from the financial statements. The meeting was attended by the Company's auditor, who responded to questions addressed to him by the Board of Directors (as did the Company CEO and CFO). At the end of the discussion, the financial statements were approved upon a vote of the Board of Directors.

2.12 <u>Share Buyback</u>

As of the report date, the Company has no buyback plans in effect.

______________________	______________________
Haim Shani, Chairman of the Board of Directors and CEO	Zvi Livne, Director

March 12, 2015

UNITRONICS (1989) (R"G) LTD

Financial Statements
December 31, 2014

Unitronics (1989) (R"G) Ltd

Financial Statements

December 31, 2014

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Independent Auditors’ Report
To the shareholders of Unitronics (1989) (R”G) Ltd.

We have audited the accompanying consolidated statements of financial position of Unitronics (1989) (R”G) Ltd. (hereinafter the "Company"), as at December 31, 2014 and 2013 and the consolidated statements of operations, the comprehensive Income, the changes in equity and the cash flows for each of the three years the last of which ended December 31, 2014. 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 revenues constitute 18% of the total consolidated revenues for the year ended December 31, 2012. The financial statements of the subsidiaries were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts emanating from the financial statements of the subsidiaries, is based on the opinions of the other auditors.

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

In our opinion, based on our audit and on the reports of the above mentioned other auditors, the above financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as at December 31, 2014 and 2013, and the results of operations, changes in equity and cash flows of them for each of the three years the last of which ended December 31, 2014, in conformity with International Financial Reporting Standards (IFRS) and any disclosures under Israeli Securities Regulations (Annual Financial Statements), 2010.

Amit, Halfon
Certified Public Accountants (Israel)

Ramat-Gan
March 12, 2015

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

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

	Note	December 31, 2014	December 31, 2014	December 31, 2013	
			(in thousands)		
		Convenience translation into EURO, (unaudited) (1)	NIS		
Current assets					
Cash and cash equivalents	3	8,570	40,488	38,442	
Restricted deposit	16B(3),(4)	533	2,516	4,145	
Marketable securities	4	5,571	26,320	26,225	
Accounts receivable -					
Trade	5	5,720	27,026	16,819	
Other		526	2,486	1,577	
Other financial assets	27F	88	418	-	
Inventory	6	5,919	27,967	18,866	(2)
Inventory - work in progress	7	1,007	4,756	15,313	
		27,934	131,977	121,387	
Non-current assets					
Deferred taxes	24(10)	-	-	94	
Long-term deposits		90	432	412	
Property and equipment, net	8	4,148	19,593	40,247	
Intangible assets, net	9	11,439	54,045	44,423	
		15,677	74,070	85,176	
		43,611	**206,047**	**206,563**	

Haim Shani Chairman of the Board of Directors And Chief Executive Officer	Tzvi Livne Director	Gavriel Badusa Chief Financial Officer

Approved: March 12, 2015

(1) See Note 1E.
(2) See note 2W.
The notes to the financial statements form an integral part thereof.

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

	Note	December 31, 2014	December 31, 2014	December 31, 2013	
			(in thousands)		
	Note	Convenience translation into EURO, (unaudited) (1)	NIS		
Current liabilities					
Current maturities of long-term loans	10A	405	1,915	3,346	
Current maturities of bonds	10B	2,171	10,259	11,864	
Accounts payable -					
Trade	11	4,772	22,545	15,862	(2)
Other	12	6,222	29,395	31,889	
Embedded derivatives	27E	100	473	1,286	
		13,670	64,587	64,247	
Non-current Liabilities					
Loans from the banks and others	13	1,156	5,461	7,319	
Bonds	14	17,236	81,432	87,251	
Liabilities for benefits to employees, net	15	378	1,787	2,398	
Deferred taxes	24	660	3,120	1,585	
		19,430	91,800	98,553	
Contingent liabilities, mortgages, guarantees and commitments	16				
Equity	17				
Share capital		75	352	352	
Share premium		10,707	50,588	50,588	
Capital reserve from translation of foreign operations		97	458	(1,588)	
Company shares held by the company		(1,490)	(7,042)	(7,042)	
Reserve from a transaction with a controlling party		22	104	104	
Retained earnings		1,100	5,200	1,349	
		10,511	49,660	43,763	
		43,611	**206,047**	**206,563**	

(1) See Note 1E.
(2) See note 2W.
The notes to the financial statements form an integral part thereof.

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

	Note	For the year ended December 31,	For the year ended December 31,		
		2014	2014	2013	2012
		(in thousands)			
		Convenience translation into EURO, (unaudited) (1)	NIS		
Revenues	25	36,259	171,311	156,179	142,126
Cost of revenues	18	24,883	117,566	112,728	105,322
Gross profit		11,376	53,745	43,451	36,804
Development expenses, net	19	1,292	6,102	5,706	5,576
Selling & marketing expenses	20	4,372	20,657	17,056	17,616
General & administrative expenses	21	2,360	11,148	11,240	8,828
Other expenses	8	455	2,150	7	-
Operating profit		2,897	13,688	9,442	4,784
Financing incomes	22A	408	1,927	2,681	3,583
Financing expenses	22B	2,214	10,458	10,513	7,081
Profit before tax benefit (Taxes on Income)		1,091	5,157	1,610	1,286
Tax benefits (Taxes on Income)		(383)	(1,811)	(1,444)	114
Net profit for the year		708	3,346	166	1,400
Basic and diluted profit per 1 ordinary share NIS 0.02 par value	26	0.071	0.335	0.017	0.139

(1) See Note 1E.
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, 2014	For the year ended December 31, 2014	2013	2012
			(in thousands)		
		Convenience translation into EURO, (unaudited) (1)	NIS		
Net profit for the year		708	3,346	166	1,400
Other comprehensive income (loss) (after tax)					
Items that may not be classified afterwards to profit or loss -					
Remeasurement gain (losses) from defined benefit plans	15	107	505	224	(495)
Items that may be reclassified to profit or loss in the future if certain conditions are met -					
Adjustments arising from translating financial statements of foreign operations		433	2,046	(631)	(309)
Other comprehensive income (loss) for the year		540	2,551	(407)	(804)
Total comprehensive income (loss) for the year		1,248	5,897	(241)	596

(1) See Note 1E.
The notes to the financial statements form an integral part thereof.

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

	Share capital	Share premium	Capital reserve from translation of foreign operations	Company shares held by the company	Reserve from a transaction with a controlling party	Retained earnings	Total
	NIS, in thousands						
Balance at January 1, 2012	352	50,588	(648)	(6,643)	-	54	43,703
Net profit for the year	-	-	-	-	-	1,400	1,400
Other comprehensive income for the year	-	-	(309)	-	-	(495)	(804)
Total comprehensive income (loss)	-	-	(309)	-	-	905	596
Purchase of company shares by the company	-	-	-	(399)	-	-	(399)
Balance at December 31, 2012	352	50,588	(957)	(7,042)	-	959	43,900
Net profit for the year	-	-	-	-	-	166	166
Other comprehensive income (loss) for the year	-	-	(631)	-	-	244	(407)
Total comprehensive income (loss)	-	-	(631)	-	-	390	(241)
Capital profit from a transaction with a controlling party	-	-	-	-	104	-	104
Balance at December 31, 2013	352	50,588	(1,588)	(7,042)	104	1,349	43,763
Net profit for the year	-	-	-	-	-	3,346	3,346
Other comprehensive income for the year	-	-	2,046	-	-	505	2,551
Total comprehensive income	-	-	2,046	-	-	3,851	5,897
Balance at December 31, 2014	352	50,588	458	(7,042)	104	5,200	49,660

	Share capital	Share premium	Capital reserve from translation of foreign operation	Company shares held by the company	Reserve from a transaction with a controlling party	Retained earnings (loss)	Total
	Convenience translation into EURO, in thousands (unaudited) (1)						
Balance at January 1, 2014	75	10,707	(336)	(1,490)	22	285	9,263
Net profit for the year	-	-	-	-	-	708	708
Other comprehensive income for the year	-	-	433	-	-	107	540
Total comprehensive income	-	-	433	-	-	815	1,248
Balance at December 31, 2014	75	10,707	97	(1,490)	22	1,100	10,511

(1) See Note 1E.
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,		
	2014	2014	2013	2012
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	NIS		
Cash flows - operating activities				
Net Profit for the year	708	3,346	166	1,400
Adjustments necessary to show the cash flows from operations (Appendix A)	2,311	10,918	3,166	20,914
Cash flows provided by operating activities	3,019	14,264	3,332	22,314
Cash flows - investing activities				
Sale of (investment in) marketable securities, net	(57)	(269)	5,453	7,236
Purchase of property and equipment	(305)	(1,442)	(1,499)	(1,396)
Sale of property and equipment	3,914	18,490	77	-
Investment in restricted deposit	(197)	(929)	(1,454)	-
Repayment of restricted deposit	567	2,680	700	-
Repayment (Investment) in long-term deposits	(12)	(56)	20	(29)
Investment in intangible assets	(3,815)	(18,020)	(15,876)	(14,385)
Cash flows provided by (used in) investing activities	95	454	(12,579)	(8,574)
Cash flows - financing activities				
Repayment of long-term loans	(709)	(3,352)	(4,476)	(4,401)
Bond issue	8,192	38,702	51,509	-
Repayment of bonds	(2,494)	(11,783)	(18,031)	(6,251)
Early redemption of bonds	(8,021)	(37,897)	-	-
Purchase of company shares by the company	-	-	-	(399)
Cash flows provided by (used in) financing activities	(3,032)	(14,330)	29,002	(11,051)
Translation differences in respect of foreign operations cash balances	351	1,658	(326)	(143)
Change in cash and cash equivalents	433	2,046	19,429	2,546
Cash and cash equivalents at beginning of year	8,137	38,442	19,013	16,467
Cash and cash equivalents at end of year	8,570	40,488	38,442	19,013

(1) See Note 1E.
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,				
	2014	2014	2013		2012	
		(in thousands)				
	Convenience translation into EURO, (unaudited) (1)	NIS				
Appendix A - Adjustments necessary to show the cash flows from operations						
Income and expenses not involving cash flows:						
Depreciation and amortization	2,242	10,592	8,374		7,494	
Loss (profit) from marketable securities, net	37	174	(992)		(1,693)	
Changes in liabilities for benefits to employees, net	(2)	(10)	(53)		(191)	
Capital loss	455	2,150	7		-	
Deferred taxes	383	1,811	1,444		(114)	
Reevaluation of long-term loans and bonds	(29)	(136)	1,372		860	
Reevaluation of restricted deposit	(8)	(40)	(42)		(68)	
Reevaluation of embedded derivatives and other financial assets	(261)	(1,231)	(183)		412	
Loss on early redemption of bonds	633	2,991	-		-	
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable - trade	(1,894)	(8,949)	(2,376)		2,876	
Decrease (increase) in accounts receivable - other	(231)	(1,091)	1,020		(475)	
Decrease (increase) in inventory	(1,824)	(8,616)	3,679	(2)	(6,200)	(2)
Decrease (increase) in inventory - work in progress	2,236	10,563	2,682		(10,661)	
Increase (decrease) in accounts payable - trade	1,414	6,680	(15,757)	(2)	16,122	(2)
Increase (decrease) in accounts payable - other	(840)	(3,970)	3,991		12,552	
	2,311	10,918	3,166		20,914	
Appendix B -Non-cash operations						
Capital benefit arising from a transaction with a controlling party	-	-	104		-	
Appendix C - Additional information on cash flows regarding operating activities						
Cash paid during the year for:						
Interest	1,170	5,529	5,221		4,600	
Taxes on income	19	90	108		108	
Cash received during the year for:						
Interest and dividend	235	1,109	1,280		1,400	

(1) See Note 1E.
(2) See note 2W.
The notes to the financial statements form an integral part thereof.

Note 1 - General

A. Unitronics (1989) (R"G) Ltd. (hereinafter - 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. The company holds 100% of the equity and control Unitronics Inc. Unitronics Inc 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 Inc commenced its operations in June 2001. Since 2006 Unitronics Inc operates in the projects area. Since the fourth quarter of 2012 the systems activity was concentrated in U.S. and / or North America in a subsidiary that was established, inter alia, for this purpose (see 3 below).

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

3. The company holds 100% of the equity and control of Unitronics Automated Sulotions Ltd. (Formerly - Unitronics Parking Sulotions Ltd.) (hereinafter - "Automated Solutions"). Automated Solutions was established in the last quarter of 2011 to coordinate the developing, marketing activities, planning, manufacturing, construction and maintenance of automated parking systems. See also Note 16 C. In November 2014 the Company sold its wholly owned subsidiary Unitronics Systems Inc. to Automated Solutions in exchange to the par value of the shares of Unitronics Systems Inc. Since then Automated Solutions holds 100% of the equity and control of Unitronics System Inc.
Unitronics Systems Inc was established in May 2012 to coordinate the activities of the system and / or parking solutions segment in the U.S. and / or North America, and began operations in the last quarter of 2012.

C. The Company designs, develops, manufactures and markets Programmable Logic Controllers - which are specialized computer-based electronic devices used in an automation process to control machinery and other systems. The Company also provides design, construction and maintenance services within the framework of projects for the automation, computerization and integration of computerized logistics systems, mainly automated warehouses and distribution centers. In addition, the Company designs, develops, manufactures, constructs and maintains mechanized systems for automated parking solutions.

D. 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, 2014	223.36	4.7246	3.889
December 31, 2013	223.80	4.7819	3.471
December 31, 2012	219.80	4.9206	3.733
Change during the period	**%**	**%**	**%**
December 31, 2014	(0.20)	(1.20)	12.04
December 31, 2013	1.82	(2.82)	(7.02)
December 31, 2012	1.63	(0.35)	(2.30)

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

Note 1 - General (cont'd)

E. 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, 2014 (EURO 1 = NIS 4.7246).
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 following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

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

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 section (E) below), and liabilities for benefits to employees which are measured in accordance with the provisions of IAS 19 (see (P) below).

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

Consolidated financial statements

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

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

B. Assumptions and estimates

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Note 2 - Significant Accounting Policies (cont'd)

B. Assumptions and estimates (cont'd)

Pension and other post-employment benefits:

The liability in respect of post-employment defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about, among others, the discount rate, rate of salary increase and employee turnover rate. The carrying amount of the liability may be significantly affected by changes in these estimates. See additional information in note 15.

Development costs

Development costs are discounted in accordance with the accounting principles set forth in section (L) below. 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 additional information in note 9.

Costs of work under a construction contract

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

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

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

Deferred taxes

Assets (liabilities) in respect of deferred taxes are recognized in accordance with section N below.
Calculation of deferred taxes (liabilities) is based on assumptions and estimates, inter alia, for temporary differences between the amounts included in the financial statements and amounts taken into account for tax purposes, and it is based at the tax rate expected to apply at the date of realization.

Embedded derivatives

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

Note 2 - Significant Accounting Policies (cont'd)

C. Functional currency and foreign currency

1. Functional currency and presentation currency

The financial statements are presented in NIS, the Company's functional currency, which is the currency that best reflects the economic environment and transactions in which the Company operates.

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

a. Assets and liabilities on every balance sheet date (including comparative figures) are translated according to the closing rates of exchange on every balance sheet date. Goodwill and all adjustments of fair value to the book value of the assets and liabilities on the date of acquiring the foreign operations are handled as assets and liabilities of foreign operations and translated according to the closing rate on every balance sheet date
b. Revenues and expenses for all periods are presented in the statement of operations (including comparative figures) are translated according to the average rates of exchange in all of the presented periods; but in those cases where there were significant fluctuations in the rates of exchange, revenues and expenses were translated according to the rates of exchanges that existed on the dates of the translations themselves.
c. Share capital, capital reserves and other capital movements are translated according to the rates of exchanges on the date of their creation.
d. The retained earnings balance is translated based on the opening balance translated according to the rates of exchange at that time, and the relevant additional movements during the period, translated as mentioned in clauses (b) and (c) above.
e. All rates of exchange differences created are classified as a separate item in shareholders' equity, in the capital reserve "Adjustments from translation of financial statements of foreign operations".

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

2. Transactions, assets and liabilities in foreign currency

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

D. Cash and cash equivalents

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

Note 2 - Significant Accounting Policies (cont'd)

E. Financial instruments

1. Financial assets:

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

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

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

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

b. Loans and receivables:

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

c. Available-for-sale financial assets:

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

2. Financial liabilities

Financial liabilities are initially recognized at fair value. Loans and other liabilities measured at amortized cost are presented less direct transaction costs.

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

a. Financial liabilities at amortized cost:

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

Note 2 - Significant Accounting Policies (cont'd)

E. Financial instruments (cont'd)

2. Financial liabilities (cont'd)

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

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

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

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

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

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

3. Offsetting financial instruments:

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

The right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. In order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

4. Derecognition of financial instruments:

Financial assets:

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

If the Company transfers its rights to receive cash flows from an asset and neither transfers nor retains substantially all the risks and rewards of the asset nor transfers control of the asset, a new asset is recognized to the extent of the Company's continuing involvement in the asset. When continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Company could be required to repay.

Note 2 - Significant Accounting Policies (cont'd)

E. Financial instruments (cont'd)

4. Derecognition of financial instruments:

Financial liabilities:

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group) discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

When an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognized in profit or loss. If the exchange or modification is not substantial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized on the exchange. When evaluating whether the change in the terms of an existing liability is substantial, the Company takes into account both quantitative and qualitative considerations.

5. Impairment of financial assets:

The Group assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset or group of financial assets as follows:

Financial assets carried at amortized cost:

Objective evidence of impairment exists when one or more events that have occurred after initial recognition of the asset have a negative impact on the estimated future cash flows. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. If the financial asset has a variable interest rate, the discount rate is the current effective interest rate. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

Available-for-sale financial assets:

For equity instruments classified as available-for-sale financial assets, evidence of impairment includes a significant or prolonged decline in the fair value of the asset below its cost and evaluation of changes in the technological, economic or legal environment or in the market in which the issuer of the instrument operates. The determination of a significant or prolonged impairment depends on the circumstances at each reporting date. In making such a determination, historical volatility in fair value is considered, as well as a decline in fair value of 20% or more, or a decline in fair value whose duration is six months or more. Where there is evidence of impairment, the cumulative loss recorded in other comprehensive income is reclassified to profit or loss. In subsequent periods, any reversal of the impairment loss is recognized in other comprehensive income.

Note 2 - Significant Accounting Policies (cont'd)

E. Financial instruments (cont'd)

5. Impairment of financial assets (cont'd):

Available-for-sale financial assets (cont'd):

For debt instruments classified as available-for-sale financial assets, evidence of impairment includes one or more events that have occurred after the date of the investment in the asset and which have a negative impact on the estimated future cash flows. Where there is evidence of impairment, the cumulative loss recorded in other comprehensive income is recognized as an impairment loss in profit or loss. In a subsequent period, the amount of the impairment loss is reversed if the increase in fair value can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

F. Allowance for doubtful accounts:

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

G. Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale.

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

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

H. Operating turnover period

The Company's operating turnover period is 12 months.

I. Treasury shares

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

Note 2 - Significant Accounting Policies (cont'd)

J. Leases

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

1. Operating leases:

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

2. Financial lease

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

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

K. Fixed assets

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

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

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

	%	Mainly %
Buildings	2	
Leasehold improvements (*)	10	
Machinery and equipment	7-33	(mainly 33%)
Motor vehicles	15	
Office furniture and equipment	6-33	(mainly 7%)

(*) Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term or the expected life of the improvement.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

Note 2 - Significant Accounting Policies (cont'd)

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.

Research and development expenses

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

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

The asset is measured at cost less any accumulated amortization and any accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. The asset is amortized over its useful life. Testing of impairment is performed annually over the period of the development project.

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.

Amortization
The useful lifespan of intangible assets is as follows:

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

Note 2 - Significant Accounting Policies (cont'd)

M. Impairment of non-financial assets:

The Company evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

N. Taxes on income

Current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or equity.

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

2. Deferred taxes

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

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

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

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

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

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

O. Share-based payments

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

Note 2 - Significant Accounting Policies (cont’d)

O. Share-based payments (cont’d)

Transactions settled with capital instruments

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

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

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

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

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

P. Liabilities for benefits to employees

The company has a number of benefits to employees plans:

1. Short-term employee benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made

Note 2 - Significant Accounting Policies (cont'd)

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

2. Benefits after employment

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

The Company has defined contribution plan according to Section 14 of the Severance Pay Law, according to which the Company pays, on a permanent basis, payments without it having any legal or implied obligation to pay additional payment even if the principal does not accrue to sufficient amounts in order to pay all the benefits to the employee relating to the service of the employee during the current period and previous periods. Deposits in defined deposit programs for severance pay pursuant to Section 14 or for savings are recognized as an expense at the time of the deposit to the program, concurrent with receiving work services from the employee.

Furthermore, the company also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include expected salary increases and rates of employee turnover based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to market yields at the reporting date on high quality corporate bonds that are linked to the Consumer Price Index with a term that is consistent with the estimated term of the severance pay obligation.

In respect of its severance pay obligation to certain of its employees, the Company makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

The liability for employee benefits shown in the statement of financial position reflects the present value of the defined benefit obligation less the fair value of the plan assets.

Remeasurements of the net liability are recognized in other comprehensive income in the period in which they occur.

Q. Recognition of revenues

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

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

1. Revenues from sale of products are recognized when all the significant risks and benefits are passed to the buyer; in general, on the date of delivery of the product to the buyer (the distributor).
2. Revenues from services are recorded by the accrual method over the period of the service agreement.
3. Revenues from management fees of a building are recorded by the accrual method over the period of the agreement.

Note 2 - Significant Accounting Policies (cont'd)

Q. Recognition of revenues (cont'd)

4. Revenues from work in a construction contract are recognized according to the rate of completion method, where all the following conditions exist: the revenues are known or can be reliably measured, the collection of revenues is expected, the cost connected with performing the work is known or can be reliably measured, there is no significant uncertainty regarding the ability of the Company to complete the work and meet the contractual terms with the customer, and the rate of completion can be reliably measured. The rate of completion is determined on the basis of completion of the engineering stages of the work. Regarding work for which a loss is expected, a full provision for the expected loss is made.

R. Discounts to customers

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

S. Earnings (loss) per share

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

T. Provisions

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense is recognized in the statement of profit or loss net of any reimbursement.

U. Government grants

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

Government grants received from the Office of the Chief Scientist in Israel ("OCI") are recognized upon receipt as a liability if future economic benefits are expected from the research project that will result in royalty-bearing sales. A liability for the loan is first measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grant received and the fair value of the liability is accounted for as a Government grant and recognized as a reduction of research and development expenses. After initial recognition, the liability is measured at amortized cost using the effective interest method. Royalty payments are treated as a reduction of the liability. If no economic benefits are expected from the research activity, the grant receipts are recognized as a reduction of the related research and development expenses. In that event, the royalty obligation is treated as a contingent liability in accordance with IAS 37.

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

Note 2 - Significant Accounting Policies (cont’d)

V. Fair value measurement

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

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

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

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

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

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

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

W. Immaterial adjustment of comparative figures

Immaterial inventory balances which were held by subcontractors were set off from suppliers' balances and were not included in the inventory item. In these financial statements, the company adjusted the comparative figures so that the remaining inventory held by sub-contractors was reclassified into the inventory item. The adjustment above had no impact on the total equity of the company or on the comprehensive income (loss) to the comparison periods.

Note 2 - Significant Accounting Policies (cont'd)

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

1. IFRS 15, "Revenue from Contracts with Customers":

In May 2014, the IASB issued IFRS 15 ("IFRS 15").

IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

The IFRS 15 introduces a five-step model that will apply to revenue earned from contracts with customers:

Step 1: Identify the contract with a customer, including reference to contract combination and accounting for contract modifications.
Step 2: Identify the separate performance obligations in the contract
Step 3: Determine the transaction price, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer.
Step 4: Allocate the transaction price to the separate performance obligations on a relative stand-alone selling price basis using observable information, if it is available, or using estimates and assessments.
Step 5: Recognize revenue when the entity satisfies a performance obligation over time or at a point in time.

IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2017. Early adoption is permitted. IFRS 15 allows an entity to choose to apply a modified retrospective approach, according to which IFRS 15 will only be applied in the current period presented to existing contracts at the date of initial application. No restatement of the comparative periods will be required as long as the disclosures regarding prior periods required by IFRS 15 are included.

The Company is evaluating the possible impact of IFRS 15 but is presently unable to assess its effect, if any, on the financial statements.

Note 2 - Significant Accounting Policies (cont'd)

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

2. IFRS 9, "Financial Instruments":

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39, " Financial Instruments: Recognition and Measurement". IFRS 9 mainly focuses on the classification and measurement of financial assets and it applies to all assets in the scope of IAS 39.

According to IFRS 9, all financial assets are measured at fair value upon initial recognition. In subsequent periods, debt instruments are measured at amortized cost only if both of the following conditions are met:

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

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

Subsequent measurement of all other debt instruments and financial assets should be at fair value. IFRS 9 establishes a distinction between debt instruments to be measured at fair value through profit or loss and debt instruments to be measured at fair value through other comprehensive income.

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income (loss), in accordance with the election by the Company on an instrument-by-instrument basis. If equity instruments are held for trading, they should be measured at fair value through profit or loss.
According to IFRS 9, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected.

According to IFRS 9, changes in fair value s of financial liabilities which are attributable to the change in credit risk should be presented in other comprehensive income. All other changes in fair value should be presented in profit or loss.

IFRS 9 also prescribes new hedge accounting requirements.

IFRS 9 is to be applied for annual periods beginning on January 1, 2018. Early adoption is permitted.

The Company believes that the amendments to IFRS 9 are not expected to have a material impact on the financial statements.

Note 2 - Significant Accounting Policies (cont'd)

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

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

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

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

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

The amendments to IAS 19 was applied retrospectively for annual periods beginning on or after July 1, 2014.

The amendments to IAS 19 did not have a material impact on the financial statements.

Note 3 - Cash and cash equivalents

	December 31, 2014	**December 31, 2014**	**December 31, 2013**
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**NIS**	
Israeli currency	1,811	8,554	9,497
Foreign currency	6,759	31,934	28,945
	8,570	40,488	38,442

Note 4 - Marketable securities

Marketable securities measured at fair value through the statement of operations

Stocks	500	2,360	2,531
Bonds:			
Linked to Israeli CPI	2,516	11,886	14,270
Unlinked	2,455	11,598	9,424
Linked to USD	83	393	-
Linked to other currency	17	83	-
	5,571	26,320	26,225

Note 5 - Accounts receivable - trades

	December 31, 2014	December 31, 2014	December 31, 2013
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Related to work in progress in connection with long-term contracts:			
Open accounts	1,589	7,507	3,607
Income receivable	1,309	6,184	41
	2,898	13,691	3,648
Others:			
Open accounts	2,830	13,370	13,145
Post-dated checks receivable	6	28	91
	2,836	13,398	13,236
	5,734	27,089	16,884
Provision for doubtful debts	(14)	(63)	(65)
	5,720	27,026	16,819

An analysis costomers (open accounts) without provision for doubtful debts, net, in accordance with the collection delay of with reference to reporting date:

	Customers without collection delay	Customers with collection delay of			Total
		Up to 30 days	30 to 60 days	More than 60 days	
	NIS (in thousands)				
December 31, 2014	15,847	439	4,059	469	20,814
December 31, 2013	14,759	1,350	270	308	16,687

Note 6 - Inventory

	December 31, 2014	December 31, 2014	December 31, 2013	
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Materials and Packaging	1,747	8,256	6,731	
Work in process	1,498	7,078	3,561	
Finished products	2,674	12,633	8,574	(*)
	5,919	27,967	18,866	

Eliminating of the inventory impairment recorded to the cost of revenues in the reported year aggregated an amount of NIS 70 thousands (in 2013 an impairment in value of inventory - NIS 357 thousands).

(*) See note 2W.

Note 7 - Inventory - work in progress

Cost of work performed	12,771	60,340	69,492
Less amounts charged to statements of operations	11,764	55,584	54,179
	1,007	4,756	15,313

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, 2013	41,564	1,334	4,755	716	3,394	51,763
Additions	1,053	15	361	-	70	1,499
Disposals	-	-	(217)	(186)	(68)	(471)
Translation differences	-	-	-	-	(54)	(54)
Balance as at December 31, 2013	42,617	1,349	4,899	530	3,342	52,737
Additions	-	38	475	770	159	1,442
Disposals	(20,491)	-	(97)	(530)	(75)	(21,193)
Translation differences	-	-	-	-	106	106
Balance as at December 31, 2014	22,126	1,387	5,277	770	3,532	33,092
Accumulated depreciation						
Balance as at January 1, 2013	6,032	400	2,927	340	1,631	11,330
Depreciation during the year	545	135	550	84	246	1,560
Disposals	-	-	(217)	(102)	(48)	(367)
Translation differences	-	-	-	-	(33)	(33)
Balance as at December 31, 2013	6,577	535	3,260	322	1,796	12,490
Depreciation during the year	528	137	498	94	243	1,500
Disposals	-	-	(97)	(381)	(75)	(553)
Translation differences	-	-	-	-	62	62
Balance as at December 31, 2014	7,105	672	3,661	35	2,026	13,499
Net book value as at December 31, 2014	15,021	715	1,616	735	1,506	19,593
Net book value as at December 31, 2013	36,040	814	1,639	208	1,546	40,247

(*) The building is located in Kiriat Sde Hateufa, on land leased from the government (Minhal). The land is leased from August 23, 2000 for a period of 49 years and has been capitalized (91%). Including capitalization of direct borrowing costs.

(**) In July 2011 the Company entered into an agreement to acquire the discounted leasehold rights of real estate property, for the use of the company, with an area of approximately 11 thousand square meters in Hevel Modi'in industrial zone - Tirat Yehuda (hereinafter - "the rights") for a total amount of NIS 17,370 thousand.

On February 2014, the Company engaged in an agreement with a third-party, which is not related to the Company, or to an interested party in it, for the sale of the Company's rights in a real estate property, for NIS 18,550 thousand plus VAT as prescribed by law. In March 2014, in the framework of the process to complete registration of the rights in the real estate property in the buyer's name, the mortgage registered in favor of a bank for a loan received to partly finance the Company's acquisition of the property was cancelled without a demand for repayment of the loan to the bank. As a result of the sale, the company recorded in the reported period a capital loss of about NIS 2 million.

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, 2014	9,020	286	1,037	112	707	11,162
Additions	-	8	101	163	33	305
Disposals	(4,337)	-	(21)	(112)	(16)	(4,486)
Translation differences	-	-	-	-	22	22
Balance as at December 31, 2014	4,683	294	1,117	163	746	7,003
Accumulated depreciation						
Balance as at January 1, 2014	1,392	113	691	68	380	2,644
Depreciation during the year	112	29	105	20	51	317
Disposals	-	-	(21)	(81)	(17)	(119)
Translation differences	-	-	-	-	13	13
Balance as at December 31, 2014	1,504	142	775	7	427	2,855
Net book value as at December 31, 2014	3,179	152	342	156	319	4,148

Note 9 - Intangible assets, net

	Patents and Licenses	Software	Development costs	Total
	NIS (in thousands)			
Cost				
Balance as at January 1, 2013	662	1,903	46,540	49,105
Additions - internal created	-	-	15,540	15,540
Additions - bought	80	256	-	336
Disposals	-	(85)	-	(85)
Balance as at December 31, 2013	742	2,074	62,080	64,896
Additions - internal created	-	-	17,842	17,842
Additions - bought	140	38	-	178
Disposals	-	(134)	-	(134)
Balance as at December 31, 2014	882	1,978	79,922	82,782
Accumulated amortization				
Balance as at January 1, 2013	649	1,247	13,163	15,059
amortization during the year	27	378	5,094	5,499
Disposals	-	(85)	-	(85)
Balance as at December 31, 2013	676	1,540	18,257	20,473
amortization during the year	51	291	8,056	8,398
Disposals	-	(134)	-	(134)
Balance as at December 31, 2014	727	1,697	26,313	28,737
Net book value as at December 31, 2014	155	281	53,609	54,045
Net book value as at December 31, 2013	66	534	43,823	44,423

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

	Patents and Licenses	Software	Development costs	Total
	Convenience translation into euro (in thousands)			
Cost				
Balance as at January 1, 2014	157	439	13,140	13,736
Additions - internal created	-	-	3,776	3,776
Additions - bought	30	8	-	38
Disposals	-	(28)	-	(28)
Balance as at December 31, 2014	187	419	16,916	17,522
Accumulated amortization				
Balance as at January 1, 2014	143	326	3,864	4,333
Amortization during the year	11	62	1,705	1,778
Disposals	-	(28)	-	(28)
Balance as at December 31, 2014	154	360	5,569	6,083
Net book value as at December 31, 2014	33	59	11,347	11,439

amortization expenses

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

	For the year ended December 31,			
	2014	2014	2013	2012
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Cost of revenues	1,735	8,198	5,288	4,023
Development expenses, net	14	65	89	75
Selling & marketing expenses	6	26	36	35
General & administrative expenses	23	109	86	40
	1,778	8,398	5,499	4,173

Note 10 - Current maturities of non-current liabilities

	December 31, 2014	December 31, 2014	December 31, 2013
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
A. Current maturities of non-current loans:			
Linked to the USD	89	424	379
Linked to the EURO	316	1,491	2,894
Not linked	-	-	73
	405	1,915	3,346
B. Current maturities of bonds:			
Linked to the CPI	1,365	6,449	11,864
Not linked	806	3,810	-
	2,171	10,259	11,864

Note 11 - Accounts payable - trade

	December 31, 2014	December 31, 2014	December 31, 2013	
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Suppliers	4,714	22,272	15,351	(*)
Post-dated checks payable	58	273	511	
	4,772	22,545	15,862	

(*) See note 2W.

Note 12 - Accounts payable - other

	December 31, 2014	December 31, 2014	December 31, 2013
Employees, payroll and taxes	911	4,306	3,888
Government institutions	-	-	631
Provision for vacation	285	1,347	1,212
Accrued expenses	2,628	12,416	5,786
Prepaid income	2,252	10,639	18,472
Advances from costumers	111	523	1,741
Other	35	164	159
	6,222	29,395	31,889

Note 13 - Loans from banks and others

A. Consisting of the following:

	Annual Interest Rates %	December 31, 2014	December 31, 2014	December 31, 2013
			(in thousands)	
		Convenience translation into EURO, (unaudited)	NIS	
Long-term loans from banks:				
Linked to the USD	Libor+2.02(*)	269	1,273	1,515
Linked to the EURO	Libor+ 2.02-3.41(**)	1,292	6,103	9,071
Less current maturities		(405)	(1,915)	(3,273)
		1,156	5,461	7,313
Long-term loans from others:				
Motor vehicles lassoers				
- Not linked	9.90	-	-	79
Less current maturities		-	-	(73)
		-	-	6
		1,156	5,461	7,319

(*) As at December 31, 2014 - 2.395%
(**) As at December 31, 2014 – 2.145%-3.535%

B. Mortgages - see note 16B.

Note 14 - Bonds

A. On March 2011 a Shelf Offering Report, the Company issued NIS 56,442,000 par value bonds (Series 3) in exchange for their par value, repayable in five equal annual installments commencing from March 23, 2013. The bonds are linked to the Israeli Consumer Price index and bear a fixed annual interest of 5.65%, payable in semi-annual equal payments starting from September 23, 2011. The net proceeds of the issuance (net of issuance expenses) amounted to NIS 53,873,000. The annual effective interest rate is 7.12%.

On October 30, 2014 the Company performed an early redemption of the outstanding bonds (Series 3).
The amount used to the early redemption of the bonds was about NIS 38,100 thousand. The total par value of the bonds that have been redeemed was NIS 33,865,200 and it constituted the all par value of the bonds (Series 3) in the turnover to this date. After the early redemption the bonds were deleted from trading on the Tel Aviv Stock Exchange. During the reporting period the company recorded a provision for loss of about NIS 3 million due to the early redemption.

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

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

An examination whether the Company meets its financial covenants will be made twice a year in every calendar year on the date of publishing the financial statements as at June 30 and December 31, as long as the bonds exist and are in circulation. The first report to be examined will be the financial statements as at June 30, 2013. As of December 31, 2014 the Company meets its financial covenants.

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

Note 14 - Bonds (cont'd)

C. On September 10, 2014, the Company published a Shelf Offer Report ("2014 Offer Report") in the framework of which the public was offered NIS 40,000,000 par value of bonds (Series 5) of the Company, which were issued at 100% of their par value. The bonds will be repayable (principal) in nine (9) annual unequal installments, which will be paid on August 31 of each of the years of 2015 – 2023 (inclusive), as detailed in 2014 Offer Report. The bonds (Series 5) will bear interest for the unpaid balance of the bonds (Series 5) which will paid in semi-annual equal installments as from March 1, 2014. The proceeds (gross) from the bonds allotted in accordance with 2014 Offer Report, aggregate NIS 40,000,000 (in total 40,000 bond units (Series 5) were allotted), the annual rate of interest that the bonds bear was set in the tender at 5.8%. The annual effective interest rate is 6.59%.

The Company has designated all proceeds of the offering to perform an early redemption of debentures (Series 3) in circulation, under the repayment terms of this series.

In the framework of 2014 Offer Report, the Company engaged in a trust deed for the bonds (Series 5) on September 10, 2014 (hereinafter – "the Trust Deed") according to which it undertook, inter alia, to meet financial covenants of a ratio of the financial debt to net CAP which will not exceed 70% and the ratio of financial debt to EBITDA which will not exceed 10, and a condition that the equity will not be less than NIS 25 million, including setting a mechanism for updating the interest for exceptional periods from the financial covenants agreed, and circumstances which are grounds for immediate repayment, and all as detailed in the Trust Deed.

An examination whether the Company meets its financial covenants will be made twice a year in every calendar year on the date of publishing the financial statements as at June 30 and December 31, as long as the bonds exist and are in circulation. The first report to be examined will be the financial statements as at December 31, 2014. As of December 31, 2014 the Company meets its financial covenants.

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	December 31, 2014	December 31, 2014	December 31, 2013
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Series 3	-	-	47,455
Less discount, net	-	-	(996)
	-	-	46,459
Less current maturities	-	-	(11,864)
	-	-	34,595
Series 4	11,426	53,984	54,037
Less discount, net	(223)	(1,054)	(1,381)
	11,203	52,930	52,656
Less current maturities	(1,365)	(6,449)	-
	9,838	46,481	52,656
Series 5	8,466	40,000	-
Less discount, net	(262)	(1,239)	-
	8,204	38,761	-
Less current maturities	(806)	(3,810)	-
	7,398	34,951	-
	17,236	81,432	87,251

Note 15 - Liabilities for benefits to employees, net

A. Post-employment benefits:

According to the labor laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to section 14 to the Severance Pay Law, as specified below. The Company's liability is accounted for as a post-employment benefit. The computation of the Company's employee benefit liability is made according to the current employment contract based on the employee's salary and employment term which establish the entitlement to receive the compensation. The post-employment employee benefits are normally financed by contributions classified as defined benefit plan or as defined contribution plan, as detailed below.

B. Defined contribution plans:

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

	For the year ended December 31,	For the year ended December 31,		
	2014	2014	2013	2012
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Expenses in respect of defined contribution plans	493	2,328	2,824	2,769

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	112	527	660	725
Interest on obligation, Net	27	128	153	151
	139	655	813	876
Actual return on plan assets	15	72	387	210

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

C. Defined benefits plans (cont'd)

2. Amounts in the balance sheet:

	December 31,	December 31,	
	2014	2014	2013
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Defined benefit liability	1,584	7,488	8,350
Fair value of plan assets	(1,206)	(5,701)	(5,952)
Net liability	378	1,787	2,398

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

	2014	2014	2013
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Defined benefit obligation as of January 1	1,766	8,350	8,591
Interest cost	65	306	334
Service cost	112	527	660
Benefits paid	(209)	(988)	(1,251)
Profit (loss) from remeasurement of defined benefit plans	(150)	(707)	16
Defined benefit obligation as of December 31	1,584	7,488	8,350

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:

Fair value of plan assets as of January 1	1,260	5,952	5,951
Interest on assets	38	178	181
Contributions by employer	41	196	202
Benefits paid	(111)	(519)	(587)
Profit (loss) from remeasurement of defined benefit plans	(22)	(106)	205
Fair value of plan assets as of December 31	1,206	5,701	5,952

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

C. Defined benefits plans (cont'd)

	For the year ended December 31,	For the year ended December 31,		
	2014	2014	2013	2012
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
5. Total influence on the other comprehensive profit (loss)				
Profit (loss) from remeasurement of defined contribution plans	128	601	189	(300)

6. Principal actuarial assumptions for defined benefit plans:	%		
Discount rate	1.6	3.9	2.3-6.7 (*)
Future salary increases	1.6	3	3

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

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

	Change in the undertaking for a defined-benefit	
	2014	2013
	NIS thousands	
Sensitivity analyses to change in the rate of annual increase in salaries:		
Increase of 1%	176	405
Decrease of 1%	(146)	(358)
Sensitivity analyses to change in the rate of capitalization:		
Increase in the rate of capitalization by 1%	(152)	(361)
Decrease in the rate of capitalization by 1%	179	412

Note 16 - Contingent Liabilities, Mortgages, guarantees and commitments

A. Contingent liabilities

The Company received Government grants from the Chief Scientist at the Ministry of Industry in research and development programs which the company carried.
The Company is committed to pay royalties in rates vary from 2% to 5% of gross sales of a product or development resulting from the research. Royalties are payable up to 100% of the amount of such grants.

The total grants less royalties paid at December 31, 2014 amount to NIS 2,093 thousands (EURO 443 thousands). The liability in respect of royalties to the Government at December 31, 2014 amounts to NIS 159 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 from august 23, 2000 between the company and the Israeli Lands Administration ("Minhal"). As at December 31, 2014 these loans amount to a total of NIS 2,581 thousands (Euro 546 thousands) (as of December 31, 2013 amounted to NIS 3,280 thousands (Euro 694 thousands)). In January 2015, after the balance sheet date, pledges on the the rights of the Company in the Unitronics Building were recorded in the Land Registration Bureau to secure the aforesaid loans and another loan amounted to NIS 4,134 thousands as at December 31, 2014 (Euro 875 thousands).

2. According to renewed building rental agreement from December 2011 in Yavne northern industrial area, the company put a bank guarantee amounting to about NIS 258 thousand.

3. As at December 31, 2014, the company gave performance guarantees to customers in the total amount of NIS 22.4 million (EURO 4.7 million). A sum of NIS 1,040 thousands were put in a restricted deposit.

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

C. Commitments

In march 2012, the company signed an agreement with the subsidiary, Unitronics Automated Solutions Ltd. (hereinafter - "Automated Solutions"), effective from 1 October 2011 (hereinafter – "the effective date"), in which the Company will provide credit lines to Automated solutions and services through the executive and operations departments. For such services Automated solutions will be charged from the effective date and in each quarter according to mechanisms defined in the agreement.

Note 17 - Share Capital

A. Composition of share capital

	December 31, 2013 and 2014	
	Number of shares	
	Authorized	Issued and outstanding
Ordinary shares of NIS 0.02 par value each	100,000,000	11,678,504

B. Option plan

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

Note 17 - Share Capital (cont'd)

C. Since August 2005 the company purchased, from time to time, shares of the company in both Tel Aviv stock exchange and Euronext. As at December 31, 2013 and 2014, the Company held 1,676,192 shares, representing about 14.35% of the issued share capital of the Company, purchased in an amount of NIS 7,042 thousand. As at December 31, 2014 there is no valid purchase plan of additional ordinary shares of the Company.

D. Dividend Distribution policy

On February 23, 2014, the Company's Board of Directors passed a resolution regarding the adoption of a dividend distribution policy as of the date of publication of periodic report as at December 31, 2013. The Company shall distribute to its shareholders a dividend at the rate of 33% from the net profit attributable to the Company's shareholders, based on the Company's annual audited consolidated financial statements (not including earnings deriving from asset revaluation) (hereinafter: "the profit"), exceeding NIS 3 million , and in subject, Inter alia, to the provisions of any law ,the financial needs of the company, its business plans and the Company's obligations to the holders of the Company's bonds (Series 4 and 5).
According to the profit in the financial statement for the year 2014 (Excluding profits from revaluation of assets) and subjected to the dividend distribution policy, the company will not distribute a dividend from the profit of 2014.

E. Managing the Company's capital

The object of the Company in managing shareholders' equity is to maintain the Company's ability to ensure continuity of business and create a return for its shareholders, investors and other interested parties. The Company operates to achieve a return on capital at the level acceptable in the branch and in the field of operations in the markets in which the Company operates. This return can be subject to changes according to the market factors in the branch and in the Company's business environment. The Company is not subject to any demands regarding minimum capital required or achieving a certain level of return on capital. However, the company has a minimum capital requirement as part of a trust deed for debentures (series 4) and for debentures (series 5) described in Note 14(B) and 14(C).

Note 18 - Cost of revenues

	For the year ended December 31,	For the year ended December 31,		
	2014	2014	2013	2012
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Materials consumed and subcontractors (*)	20,087	94,903	80,395	72,447
Payroll and related benefits	3,447	16,284	18,315	19,802
Changes in work in process and finished products	(1,690)	(7,986)	2,143	(3,633)
Depreciation and amortization	1,887	8,917	6,062	4,906
Management and Maintenance costs	90	425	412	398
Other expenses	1,062	5,023	5,401	11,402
	24,883	117,566	112,728	105,322

(*) According to the agreements from 2010 and 2011 the Company is buying and selling inventories of raw materials to subcontractors for manufacturing for the company. The sell of inventories is at cost price, without gross profit. Since the significant benefits and risks for the inventories is not being transferred to the subcontractors, materials costs are decreased from proceeds from sales of raw materials sold to the subcontractors. In 2014 the proceeds from sales of raw materials amounted to about NIS 12.4 million (in 2013 and 2012 amounted to NIS 8.3 and 12.2 million, Respectively).

Note 19 - Development expenses, net

	For the year ended December 31,	For the year ended December 31,		
	2014	2014	2013	2012
		(in thousands)		
	Convenience translation into EURO, (unaudited)		NIS	
Salaries and related benefits	3,064	14,475	13,398	11,901
Subcontractors	1,453	6,867	4,775	4,670
Other expenses	551	2,602	3,074	2,982
Less - capitalized expenses	(3,776)	(17,842)	(15,541)	(13,977)
	1,292	6,102	5,706	5,576

Note 20 - Selling and marketing expenses

Salaries and related benefits	2,031	9,594	8,425	8,189
Travel and marketing	76	358	283	801
Exhibits, advertising and other expenses	2,265	10,705	8,348	8,626
	4,372	20,657	17,056	17,616

Note 21 - General and administrative expenses

Salaries and related benefits	1,175	5,553	5,853	5,676
Office rent, maintenance and communications	308	1,454	1,064	574
Depreciation and amortization	89	420	365	253
Professional services	319	1,505	2,127	1,328
Other expenses	469	2,216	1,831	997
	2,360	11,148	11,240	8,828

	For the year ended December 31,	For the year ended December 31,		
	2014	2014	2013	2012
	Convenience translation into EURO, (unaudited)	(in thousands) NIS		
Note 22 - Financing income (expenses)				
A. Financing income				
Profit and interest from marketable securities, net	189	894	2,101	2,986
Profit from hedge transactions, net	144	682	-	35
Embedded derivatives	26	125	-	-
Erosion of long-term loans from banks	-	-	156	-
Others	49	226	424	562
	408	1,927	2,681	3,583
B. Financing expenses				
Financing cost relating to bonds	1,266	5,983	8,584	5,822
Early redemption of debentures	633	2,991	-	-
Loss and interest from marketable securities, net	70	326	-	401
Embedded derivatives	-	-	1,289	298
Others	245	1,158	640	560
	2,214	10,458	10,513	7,081
C. Classification of finance income (expenses) according to finance instruments				
Financial assets at fair value through the statement of operations	278	1,312	2,101	2,986
Financial liabilities measured at reduced cost	(1,968)	(9,299)	(8,427)	(6,223)
Financial liabilities measured at fair value through the statement of operations	172	813	183	(412)

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,		
	2014	2014	2013	2012
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Salaries and related benefits (*)	359	1,698	1,649	1,628
Bonus interested parties	87	410	138	104
Directors' remuneration (**)	75	353	263	256
Rental expenses and management fees	233	1,099	1,143	1,169
(*) Number of recipients	2	2	2	2
(**) Number of recipients	4	4	4	4

2. Officers Insurance

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

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

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

5. The Company has personal employment agreements with Mr. Haim Shani (controlling shareholder and Chairman of the Board of Directors) and Mrs. Bareket Shani (Mr. Shani wife, serves also as member of the Board of Directors) (hereafter - employment agreements). According to these agreements Mr. Haim Shani serves as CEO and Mrs. Shani as Deputy CEO and Human Resources Manager.

   According to the employment agreements, controlling shareholders' monthly salary will be NIS 60 thousand and NIS 30 thousand, respectively. in addition, the controlling shareholders salary will be updated according to the CPI as of January 2012 and every year (at the beginning), added to their salary an amount equal to the percentage change in the past year.

   In September 2014 the AGM approved the renewal and correction to the employment agreements of the controlling shareholders so it will be valid till September 4, 2017. Employment agreements were amended, inter alia, in order to adapt them to the provisions of the Company's compensation policy by eliminating the section entitling the controlling shareholder and his wife in share options to purchase the Company's shares.
   In addition, the section in the employment agreement with Mr. Shani which requires a special majority on the board of directors to terminate the employment agreement of Mr. Shani was canceled. Other conditions under the agreements will remain the same.

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

Note 23 - Interested and related parties (cont'd)

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

Note 24 - Taxes on Income

1. Income Tax Law (Adjustments for Inflation) - 1985

   According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

   In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancellation of the inflationary additions and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year).

2. The Company has the status of an "industrial company" The Law for the Encouragement of Industry (Taxation), 1969, as defined by this law. According to this status and by virtue of regulations published thereunder, the Company is entitled to claim a deduction of accelerated depreciation on equipment used in industrial activities, as determined in the regulations issued under the Inflationary Law. The Company is also entitled to amortize a patent or rights to use a patent or intellectual property that are used in the enterprise's development or advancement, to deduct issuance expenses for shares listed for trading, and to file consolidated financial statements under certain conditions.

3. In October 2000 the company filed an expansion program to the approved enterprise program. The expansion program was approved on January 2003. The tax benefits derived from the program will be calculated in accordance with the increase in revenues compared to the base year. Under this plan the company will be entitled to exemption from tax on undistributed profits during the first two years of the period of benefits and tax rate of 25% over the next five years of the benefit period. On April 22, 2003 the Company has submitted a final report regarding the execution of the approved enterprise program and its additions. The approved enterprise program and its addition were approved on February 2004 (hereinafter: "second program"). The second program year of operation is 2004.

   The period of tax benefits, detailed above, is subject to a time limit of the earlier of 12 years from the commencement of production, or 14 years from receiving the approval. If a dividend is distributed out of tax exempt profits, as above, the Company will become liable for tax at the rate applicable to its profits from the approved enterprise in the year in which the income was earned, as if it was not under the tax benefits track.

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

   In addition, on 2011, the company chose in year 2010 as an election year of further expansion program (hereinafter - "Third program"). Under this plan the company will be entitled to exemption from tax on undistributed profits during the first two years of the period of benefits and tax rate of 25% over the next five years of the benefit period. Benefits realization period is limited up to the year 2021. Tax benefits arising from the third program will be given above the average basis for the three years preceding the election year.

   The Company's management expects that the tax benefit period in the framework of the second program will begin in the reported year. The benefit period in respect of the third program has not yet begun.

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

Note 24 - Taxes on Income (cont'd)

4. (cont'd)

In October 2014 the Company filed an application to the Bureau of the Chief Scientist of the Ministry of Industry, Commerce and Employment for approval under Section 20a of the Income Tax Ordinance – 1961 for the years 2012 – 2013. The Company estimates, based on its consultants opinion, It's highly probable to receive an approval to recognize 90% of the total development expenses submitted in the framework of the application.

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

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

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 71):

On August 5, 2013, the "Knesset" issued the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 which consists of Amendment 71 to the Law for the Encouragement of Capital Investments ("the Amendment"). According to the Amendment, the tax rate on preferred income form a preferred enterprise in 2014 and thereafter will be 16% (in development area A - 9%).

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

6. Tax rates applicable to the company

The Israeli corporate tax rate was 26.5% in 2014 and 25% in 2012 and 2013.

The deferred tax balances included in the financial statements as of December 31, 2014 are calculated according to the new tax rates that were substantially enacted as of the reporting date and, therefore, comply with the above changes, as applicable to the Company.

7. The subsidiaries, Unitronics Inc and Unitronics Systems Inc. is taxed under US tax laws and not entitled to benefits pursuant to the Encouragement of Industry (Taxes) Law, 1969. The Federal tax rate applicable to the subsidiary ranges between 15% and 35%; the state tax law applicable to the subsidiary in the State of Massachusetts is 8.75% and in the State of New Jersey ranges between 6.5% and 9%.

8. Final tax assessments attributed to the company

The Company has final tax assessments for all years up to 2010 (General Director of Israel Tax authority is authorized to extend the period of limitation for an additional year under certain conditions).

9. The carryforward losses for tax purposes as at December 31, 2014, (Only in respect of subsidiaries) amounts approximately NIS 27 million (EURO 5.7 million) for which, deferred tax assets were not recognized as their utilization in the foreseeable future is not probable.

Note 24 - Taxes on Income (cont'd)

10. Deferred tax attributed to the company

	Statements of financial position		Statements of income		
	December 31,		Year ended December 31,		
	2014	2013	2014	2013	2012
	NIS in thousands				
Deferred tax liabilities:					
Property, plant and equipment	494	467	(27)	(113)	(354)
Intangible assets	4,671	3,469	(1,202)	(1,805)	(1,664)
	5,165	3,936	(1,229)	(1,918)	(2,018)
Deferred tax assets:					
Carry forward tax losses	-	580	(580)	(65)	645
Employee benefits	287	384	(2)	32	512
Other taxes assets (*)	1,758	1,481	-	507	975
	2,045	2,445	(582)	474	2,132
Deferred tax income (expenses), net			(1,811)	(1,444)	114
Deferred tax liabilities, net	3,120	1,491			

(*) Advances paid for excess expenses

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

Non-current assets	-	94
Non-current liabilities	3,120	1,585
Deferred tax liabilities, net	3,120	1,491

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

	Statements of income		
	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Remeasurement gain (loss) from defined benefit plans	(96)	35	195

12. Taxes on income included in profit or loss:

Deferred taxes see Section 10 above.	(1,811)	(1,444)	114

Note 24 - Taxes on Income (cont'd)

13. Theoretical tax:

The reconciliation between the tax expense, assuming that all the income, expenses, gains and losses in profit or loss were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

	For the year ended December 31,	For the year ended December 31,		
	2014	2014	2013	2012
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Profit before subsidiaries losses and before taxes on income	1,091	5,157	1,610	1,286
Statutory tax rate	26.5%	26.5%	25%	25%
Tax computed at the statutory tax rate	289	1,367	402	321
	-			
Increase in taxes resulting from non-deductible expenses	8	36	50	32
Losses from previous years for which deferred taxes have been created this year and creating other tax assets	-	-	(607)	(680)
Temporary differences where deferred taxes were not recognized	460	2,171	1,754	1,101
Benefit in privileged tax rate	(370)	(1,747)	(1,336)	(877)
Update deferred tax balances for changes beneficiary tax rates	-	-	1,187	-
Other	(4)	(16)	(6)	(11)
Taxes on Income (tax benefit)	383	1,811	1,444	(114)

Note 25 - Operative segments

A. General

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

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

2. The company and its subsidiaries operate in three main operative segments.

   - Programmable Logic Controllers systems (hereinafter "The products segment").
   - System integration projects (hereinafter "The system integration projects segment").
   - Planning, construction and maintenance of automated parking systems (hereinafter - "Parking solutions segment").

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

Note 25 - Operative segments (cont'd)

A. General (cont'd)

3. 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.

4. 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.

5. Since 2014 the company examines the segment's operating performance on the basis of measuring operating results, after allocating development costs to products segment and to parking solutions segment. Until 2013 development costs were unallocated to these operative segments. Development costs to the years 2013 and 2012 were qualified to the comparison figures of those operative segments accordingly.

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

B. Report on operative segments

	For the year ended December 31,	For the year ended December 31,				
	2014	2014	2013		2012	
		(in thousands)				
	Convenience translation into EURO, (unaudited)	NIS				
1. Revenues						
Products	22,953	108,442	95,449		96,375	
System integration projects	8,008	37,835	55,096		44,684	
parking solutions	5,215	24,641	5,195		664	
Other	83	393	439		403	
Total revenues	36,259	171,311	156,179		142,126	
2. Segment results and adjustment to the profit:						
Products	5,616	26,535	20,482	(*)	21,859	(*)
System integration projects	1,003	4,737	5,002		(6,936)	
parking solutions	(1,505)	(7,109)	(7,664)	(*)	(2,754)	(*)
Other	(7)	(33)	25		4	
Unallocated corporate expenses	(2,210)	(10,442)	(8,403)		(7,389)	
Operating profit	2,897	13,688	9,442		4,784	
Unallocated corporate financing expenses, net	(1,806)	(8,531)	(7,832)		(3,498)	
Tax benefit (Taxes on Income)	(383)	(1,811)	(1,444)		114	
Profit for the year	708	3,346	166		1,400	

(*) See note 25A(5)

Note 25 - Operative segments (cont'd)

B. Report on operative segments (cont'd)

	December 31,	December 31,		
	2014	2014	2013	
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
3. Segment assets				
Products	17,488	82,623	69,239	(*) (**)
System integration projects	1,496	7,066	17,352	
parking solutions	5,872	27,741	11,890	(*)
Other	8	38	54	
Unallocated corporate assets	18,747	88,579	108,028	
Consolidated total assets	43,611	206,047	206,563	
4. Segment liabilities				
Products	4,306	20,344	13,076	(**)
System integration projects	2,883	13,619	22,149	
parking solutions	2,683	12,677	7,674	
Other	39	182	127	
Unallocated corporate liabilities	23,189	109,565	119,774	
Consolidated total liabilities	33,100	156,387	162,800	

	For the year ended December 31,	For the year ended December 31,				
	2014	2014	2013		2012	
		(in thousands)				
	Convenience translation into EURO, (unaudited)	NIS				
5. Investment cost in long-term assets						
Products	2,300	10,868	10,890	(*)	11,579	(*)
System integration projects	54	257	228		325	
parking solutions	1,586	7,491	5,009	(*)	2,965	(*)
Unallocated capital expenditure	179	846	1,248		912	
Investment cost in long-term assets	4,119	19,462	17,375		15,781	
6. Depreciation and amortization						
Products	1,604	7,579	5,779	(*)	5,115	(*)
System integration projects	109	513	640		800	
parking solutions	301	1,420	331	(*)	35	(*)
Unallocated depreciation and amortization	228	1,080	1,624		1,544	
Total depreciation and amortization	2,242	10,592	8,374		7,494	

(*) See note 25A(5)
(**) See note 2W

Note 25 - Operative segments (cont'd)

C. Geographical information

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

	For the year ended December 31,	For the year ended December 31,		
	2014	2014	2013	2012
	Convenience translation into EURO, (unaudited)	(in thousands) NIS		
Israel	9,557	45,155	59,201	49,669
Europe	11,004	51,988	46,061	46,196
America	14,039	66,328	44,084	40,751
Other destinations	1,659	7,840	6,833	5,510
	36,259	171,311	156,179	142,126

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

	December 31, 2014	December 31, 2014	December 31, 2013
	Convenience translation into EURO, (unaudited)	(in thousands) NIS	
Israel	15,587	73,646	84,890
America	90	424	286
Consolidated total non-current assets	15,677	74,070	85,176

D. Major customers

Revenues from major customers which each account for 10% or more of total revenues as reported in the financial statements:

	For the year ended December 31,	For the year ended December 31,		
	2014	2014	2013	2012
	Convenience translation into EURO, (unaudited)	(in thousands) NIS		
Customer A - segment System integration projects	-	-	6,947	21,298
Customer B - segment System integration projects	3,907	18,457	23,118	5,145

Note 26 - Profit per share

	For the year ended December 31,	For the year ended December 31,		
	2014	2014	2013	2012
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Profit for the year				
Basic and Fully diluted	708	3,346	166	1,400
Weighted average share capital (number of shares)				
Basic and Fully diluted	10,002,312	10,002,312	10,002,312	10,072,598

Note 27 - Financial Instruments

A. Classification of financial asset and financial liabilities

	December 31, 2014	December 31, 2013
	(in thousands) NIS	
Financial assets at fair value through profit or loss		
Financial assets classified as held for trading	26,320	26,225
Foreign currency forward contracts	418	-
Financial assets at fair value through the statement of operations	26,738	26,225
Financial assets measured at reduced cost		
Loans and receivables	28,469	17,397
Financial assets at fair value through profit or loss		
Embedded derivatives	473	1,286
Financial liabilities measured at reduced cost	138,339	134,765

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 systems field are generally linked to the US dollar or the Euro. In addition a considerable part of the Company's sales in the products field 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 systems field 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 systems field 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, 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, 2014, of these investments, is about NIS 26,320 thousands (about 26,225 NIS thousands as at December 31,2013).

2. Credit Risks

As at December 31, 2014 the company had trade account receivables and other account receivables amounting to approximately NIS 28,469 thousands. The company does not predict material credit risks in respect of trade account receivables and other account receivables.

Note 27 - Financial Instruments (cont'd)

B. Financial Risk factors (cont'd)

3. Liquidity 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 manage 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, 2014:

	Book Value	1th year	2th year	3th year	4th year	5th year and after	Total expected cash flow
				NIS, (in thousands)			
Accounts payable - trade	22,545	22,545	-	-	-	-	22,545
Accounts payable - other	16,727	16,727	-	-	-	-	16,727
Loans from banks and others	7,376	2,115	1,415	1,381	495	2,868	8,274
bonds	91,691	15,709	15,205	12,608	16,330	57,813	117,665
	138,339	57,096	16,620	13,989	16,825	60,681	165,211

December 31, 2013:

	Book Value	1th year	2th year	3th year	4th year	5th year and after	Total expected cash flow
				NIS, (in thousands)			
Accounts payable - trade	15,862	15,862	-	-	-	-	15,862
Accounts payable - other	9,533	9,533	-	-	-	-	9,533
Loans from banks and others	10,665	3,621	2,105	1,391	1,355	3,434	11,906
bonds	99,115	17,128	23,029	21,994	20,959	36,523	119,633
	135,175	46,144	25,134	23,385	22,314	39,957	156,934

Note 27 - Financial Instruments (cont'd)

C. Fair value

The following table presents the balances in the financial statements and the fair value of financial instruments which are not presented in the financial statements according to their fair value which there is a substantial difference between the carrying amount to fair value:

	Book value		Fair value	
	December 31,		December 31,	
	2014	2013	2014	2013
	NIS, (in thousands)			
Financial liabilities (1)				
Debentures - linked to the Israeli CPI	52,930	99,115	56,047	106,978
Debentures - not linked	38,761	-	40,004	-

(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 by 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: Inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

	Level 1	Level 2	Level 3
	NIS, (in thousands)		
As at December 31, 2014:			
Financial assets measured at fair value			
Marketable securities	26,320	-	-
Forward contracts	-	418	-
Financial liabilities measured at fair value			
Embedded derivatives	-	473	-
As at December 31, 2013:			
Financial assets measured at fair value			
Marketable securities	26,225	-	-
Financial liabilities measured at fair value			
Embedded derivatives	-	1,286	-

During 2014 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 profit or loss. The liabilities balance in the financial statements of the embedded derivatives, as at December 31, 2014, is about NIS 473 thousand (about NIS 1,286 thousand as at December 31,2013).

F. Forward contracts

In 2014 the Company started to acquire foreign currency forward contracts whose purpose is to protect itself against some of its exposures to fluctuations in the exchange rates on cash flows. The foreign currency forward contracts were not intended as hedging instruments, and therefore any profit or loss from them are recorded to the statement of income, and they are for periods of 1 to 12 months.

G. Sensitivity analyses for changes in market factors

	Sensitivity analyses for changes in the USD interest rate	
	Profit (loss)	
	1% increase	1% decrease
	NIS (in thousands)	
2014	(13)	13
2013	(15)	15

	Sensitivity analyses for changes in the Euro interest rate	
	Profit (loss)	
	1% increase	1% decrease
	NIS (in thousands)	
2014	(61)	61
2013	(91)	91

	Sensitivity analyses for changes in the USD exchange rate	
	Profit (loss)	
	5% increase	5% decrease
	NIS (in thousands)	
2014	335	(335)
2013	(125)	125

Note 27 - Financial Instruments (cont'd)

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

	Sensitivity analyses for changes in the Euro exchange rate	
	Profit (loss)	
	5% increase	5% decrease
	NIS (in thousands)	
2014	(1,706)	1,706
2013	664	(664)

	Sensitivity analyses for changes in the CPI	
	Profit (loss)	
	5% increase	5% decrease
	NIS (in thousands)	
2014	(2,243)	2,243
2013	(4,242)	4,190

	Sensitivity analyses for changes in the marketable securities market rates	
	Profit (loss)	
	5% increase	5% decrease
	NIS (in thousands)	
2014	1,316	(1,316)
2013	1,312	(1,312)

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 28 - Subsequent events

After the date of the statement of financial position, a Canadian customer, which is not connected to the Company or to interested parties in it (hereinafter: “the Customer”) signed with the Company (through a wholly owned sub-subsidiary incorporated in the US - Unitronics Systems Inc.) on a Binding Letter of Intent (BLOI) (hereinafter: “the Letter of Intent”) for the planning, supply and erection of an automatic parking system for 1,400 parking places in Calgary Alberta Canada (hereinafter: “the Project”), the largest automatic parking lot in North America, which will serve one of the leading hotel chains in the world.

According to the Letter of Intent, the customer will pay the Company for the project, a total amount of 24 million US dollars (about NIS 96 million).

According to the Letter of Intent the final agreement between the parties will be based on agreed versions of standard agreements proposed by the Design–Build Institute of America, which shell determine, inter alia, timetables, milestones and terms of payment.

Unitronics (1989) (R"G) Ltd.
Appendix - Additional information about Subsidiaries held by the Company

	Association country	Holding rate as at December 31, 2014 and 2013	
		Shares with voting right	Shares with profit right
Unitronics Inc.	USA	100%	100%
Unitronics building management and maintenance (2003) Ltd.	Israel	100%	100%
Unitronics automated solutions Ltd.	Israel	100%	100%
Unitronics Systems Inc.(*)	USA	100%	100%

(*) As at December 31, 2014 held by Unitronics Automated Solutions Ltd. (See note 1B(3)).

UNITRONICS (1989) (R"G) LTD

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

December 31, 2014

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, 2014 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.

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, 2014 and 2013 and for the three years the last of which ended December 31, 2014 which included in the company's periodic report. The separate financial information is in the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on this separate financial information based on our audit.

We did not audit the separate financial information of an affiliated companies which the company's share of its loss amount to NIS 2,151 thousands for the year ended at December 31, 2012. The condensed financial information of that companies were audited by other auditors whose report was furnished to us and our opinion, to the extent that they relate to financial information for that company, is based on the opinion of the other auditors**.**

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

In our opinion, based on our audit and on the reports of the above mentioned other auditors, the separate financial information is prepared, in all material respects, in accordance with regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Amit, Halfon
Certified Public Accountants (Israel)

Ramat-Gan
March 12, 2015

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

Unitronics (1989) (R"G) Ltd

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

	Additional information	December 31, 2014	December 31, 2014	December 31, 2013
		(in thousands)		
		Convenience translation into EURO, (unaudited) (1)	NIS	
Current assets				
Cash and cash equivalents	B	7,172	33,884	32,256
Restricted deposit		312	1,476	4,145
Marketable securities	C	5,571	26,320	26,225
Accounts receivable -				
Trade	C	2,703	12,769	12,999
Other	C	275	1,297	636
Other financial assets	C	88	418	-
Accounts receivable - other -				
Subsidiaries	F(3)	2,181	10,303	10,651
Inventory		5,531	26,131	17,028 (*)
Inventory - work in progress		621	2,935	12,470
		24,454	115,533	116,410
Non-current assets				
Long-term deposits		90	432	412
Property and equipment, net		4,010	18,940	39,717
Long-term receivables -				
Subsidiaries	F(3)(b)	7,408	35,000	15,000
Intangible assets, net		8,471	40,024	36,448
		19,979	94,396	91,577
		44,433	**209,929**	**207,987**

Haim Shani	Tzvi Livne	Gavriel Badusa
Chairman of the Board of Directors And Chief Executive Officer	Director	Chief Financial Officer

Approved: March 12, 2015

(1) See Note A.
(*) See note G to the additional information.
The additional information to the financial information forms an integral part thereof.

Unitronics (1989) (R"G) Ltd

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

	Additional information	December 31, 2014 Convenience translation into EURO, (unaudited) (1)	December 31, 2014 (in thousands) NIS	December 31, 2013 NIS
Current liabilities				
Current maturities of non-current loans		405	1,915	3,346
Current maturities of bonds		2,171	10,259	11,864
Accounts payable -				
Trade		4,133	19,526	13,753 (*)
Other	D1	4,020	18,991	25,669
Embedded derivatives		100	473	1,286
		10,829	51,164	55,918
Non-current liabilities				
Liabilities less assets associated with subsidiaries	F	3,663	17,305	9,753
Loans from the banks and others		1,156	5,461	7,319
Bonds		17,236	81,432	87,251
Liabilities for benefits to employees, net		378	1,787	2,398
Deferred taxes	E4	660	3,120	1,585
		23,093	109,105	108,306
Equity				
Share capital		75	352	352
Share premium		10,707	50,588	50,588
Capital reserve from translation of foreign operation		97	458	(1,588)
Company shares held by the company		(1,490)	(7,042)	(7,042)
Reserve from a transaction with a controlling party		22	104	104
Retained earnings		1,100	5,200	1,349
		10,511	49,660	43,763
		44,433	**209,929**	**207,987**

(1) See Note A.
(*) See note G to the additional information.
The additional information to the financial information forms an integral part thereof.

Unitronics (1989) (R"G) Ltd

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

	Additional information	For the year ended December 31, 2014	For the year ended December 31, 2014	2013	2012
		(in thousands)			
		Convenience translation into EURO, (unaudited) (1)	NIS		
Revenues		22,987	108,602	118,825	109,408
Revenues from subsidiaries	F1	6,140	29,011	23,639	25,586
Total revenues		29,127	137,613	142,464	134,994
Cost of revenues		19,937	94,195	106,924	104,814
Gross profit		9,190	43,418	35,540	30,180
Development expenses, net		626	2,958	2,944	3,862
Selling & marketing expenses		1,888	8,918	7,519	9,181
General & administrative expenses		1,728	8,162	8,305	6,531
General & administrative expenses to subsidiaries	F1	176	835	801	723
Other expenses		157	740	7	-
Operating profit		4,615	21,805	15,964	9,883
Financing incomes	F1	599	2,830	3,136	3,583
Financing expenses		2,111	9,975	10,774	7,160
Profit after financing, net		3,103	14,660	8,326	6,306
The Company's share of subsidiaries losses		(2,032)	(9,597)	(6,622)	(5,020)
Profit before tax benefit (Taxes on Income)		1,071	5,063	1,704	1,286
Tax benefit (Taxes on Income)	E7	(363)	(1,717)	(1,538)	114
Net profit for the year attributed to the company's shareholders		708	3,346	166	1,400

(1) See Note A..
The additional information to the financial information forms an integral part thereof.

Unitronics (1989) (R"G) Ltd

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

	For the year ended December 31,	For the year ended December 31,		
	2014	2014	2013	2012
	(in thousands)			
	Convenience translation into EURO, (unaudited) (1)	NIS		
Net profit for the year attributed to the company's shareholders	708	3,346	166	1,400
Other comprehensive income (loss) (after tax)				
Items that will not be classified afterwards to profit or loss -				
Remeasurement gain (losses) from defined benefit plans	107	505	224	(495)
Items that will be reclassified to profit or loss in the future if certain conditions are met -				
Adjustments arising from translating financial statements of foreign operations	433	2,046	(631)	(309)
Other comprehensive income (loss) for the year attributed to the company's shareholders	540	2,551	(407)	(804)
Total comprehensive income (loss) for the year attributed to the company's shareholders	1,248	5,897	(241)	596

(1) See Note A.
The additional information to the financial information forms an integral part thereof.

Unitronics (1989) (R"G) Ltd

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

	For the year ended December 31,	For the year ended December 31,		
	2014	2014	2013	2012
	(in thousands)			
	Convenience translation into EURO, (unaudited) (1)	NIS		
Cash flows - operating activities				
Profit for the year attributed to the company's shareholders	708	3,346	166	1,400
Adjustments necessary to show the cash flows from operations (Appendix A)	4,629	21,871	7,610	24,878
Cash flows provided by operating activities of the company	5,337	25,217	7,776	26,278
Cash flows used in operating activities from transactions with subsidiaries	(4,160)	(19,652)	(11,986)	(8,840)
Cash flows provided by (used in) operating activities	1,177	5,565	(4,210)	17,438
Cash flows - investing activities				
Sale of (investment in) marketable securities, net	(57)	(269)	5,453	7,236
Purchase of property and equipment	(265)	(1,256)	(1,422)	(1,066)
Sale of property and equipment	3,914	18,490	77	-
Investment in restricted deposit	-	-	(1,454)	-
Repayment in restricted deposit	567	2,680	700	-
Repayment (investment) in long-term deposits	(12)	(56)	20	(29)
Investment in intangible assets	(2,245)	(10,605)	(10,929)	(11,720)
Cash flows provided by (used in) investing activities	1,902	8,984	(7,555)	(5,579)
Cash flows provided by investing activities from transactions with subsidiaries	298	1,409	-	-
Cash flows provided by (used in) investing activities	2,200	10,393	(7,555)	(5,579)
Cash flows - financing activities				
Repayment of long-term loans	(709)	(3,352)	(4,476)	(4,401)
Bonds issue	8,192	38,702	51,509	-
Repayment of bonds	(2,494)	(11,783)	(18,031)	(6,251)
Early redemption of debentures	(8,021)	(37,897)	-	-
Purchase of company shares by the company	-	-	-	(399)
Cash flows provided by (used in) financing activities	(3,032)	(14,330)	29,002	(11,051)
Change in cash and cash equivalents	345	1,628	17,237	808
Cash and cash equivalents at beginning of year	6,827	32,256	15,019	14,211
Cash and cash equivalents at end of year	7,172	33,884	32,256	15,019

(1) See Note A.
The additional information to the financial information forms an integral part thereof.

Unitronics (1989) (R"G) Ltd

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

	For the year ended December 31,	For the year ended December 31,		
	2014	2014	2013	2012
	(in thousands)			
	Convenience translation into EURO, (unaudited) (1)	NIS		
Appendix A - Adjustments necessary to show the cash flows from operations				
Income and expenses not involving cash flows:				
Company's share of losses of subsidiaries losses	2,032	9,597	6,622	5,020
Depreciation and amortization	1,928	9,116	7,987	7,399
Loss (profit) from marketable securities, net	37	174	(992)	(1,693)
Changes in liabilities for benefits to employees, net	(2)	(10)	(53)	(191)
Capital loss	157	740	7	-
Deferred taxes	363	1,717	1,538	(114)
Reevaluation of long-term loans and bonds	(29)	(136)	1,372	860
Reevaluation of restricted deposit	(2)	(11)	(42)	(68)
Reevaluation of embedded derivatives	(261)	(1,231)	(183)	412
Loss on early redemption of debentures	633	2,991	-	-
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable - trade	49	230	(1,588)	2,878
Decrease (increase) in accounts receivable - other	(191)	(904)	1,343	(149)
Decrease (increase) in inventory	(1,912)	(9,033)	3,562 (*)	(5,264) (*)
Decrease (increase) in inventory - work in progress	2,018	9,535	4,310	(9,537)
Increase (decrease) in accounts payable - trade	1,222	5,773	(16,229) (*)	14,780 (*)
Increase (decrease) in accounts payable - other	(1,413)	(6,677)	(44)	10,545
	4,629	21,871	7,610	24,878
Appendix B - Non-cash transactions				
Providing long-term financing to a subsidiary	4,233	20,000	15,000	-
Capital benefit arising from a transaction with a controlling party	-	-	104	-
Capital note to subsidiary	-	-	-	2,000
Appendix C - Additional information on cash flows regarding operating activities				
Cash paid during the year for:				
Interest	1,170	5,529	5,221	4,600
Taxes on income	19	90	108	108
Cash received during the year for:				
Interest and dividend	235	1,109	1,280	1,400

(1) See Note A.
(*) See note G to the additional information.
The additional information to the financial information forms an integral part thereof.

Additional information

Additional information of new IFRSs in the period before their adoption whose impact on the separate financial information of the Company is expected to be material:

IFRS 15, "Revenue from Contracts with Customers":

In May 2014, the IASB issued IFRS 15 ("IFRS 15").

IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

The IFRS 15 introduces a five-step model that will apply to revenue earned from contracts with customers:

Step 1: Identify the contract with a customer, including reference to contract combination and accounting for contract modifications.

Step 2: Identify the separate performance obligations in the contract

Step 3: Determine the transaction price, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer.

Step 4: Allocate the transaction price to the separate performance obligations on a relative stand-alone selling price basis using observable information, if it is available, or using estimates and assessments.

Step 5: Recognize revenue when the entity satisfies a performance obligation over time or at a point in time.

IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2017. Early adoption is permitted. IFRS 15 allows an entity to choose to apply a modified retrospective approach, according to which IFRS 15 will only be applied in the current period presented to existing contracts at the date of initial application. No restatement of the comparative periods will be required as long as the disclosures regarding prior periods required by IFRS 15 are included.

The Company is evaluating the possible impact of IFRS 15 but is presently unable to assess its effect, if any, on the financial statements.

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, 2014 (EURO 1 = NIS 4.7246).

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

Additional information

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

	Foreign currency		Israeli currency	
	US Dollar	Euro	Not linked	Total
	NIS, (in thousands)			
December 31, 2014:				
Cash and cash equivalents	12,417	14,197	7,270	33,884
December 31, 2013:				
Cash and cash equivalents	8,682	14,584	8,990	32,256

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

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

	December 31, 2014	December 31, 2013
	(in thousands) NIS	
Financial assets at fair value through the statement of operations -		
Marketable securities	26,320	26,225
Forward contracts	418	-
Financial assets at reduced cost:		
Loans and receivables	13,575	13,029
	40,313	39,254

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.

Unitronics (1989) (R"G) Ltd

Additional information

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

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

	December 31,		
	2014	2014	2013
	(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS	
Employees, payroll and taxes	756	3,574	3,337
Government institutions	-	-	631
Accrued expenses	926	4,373	3,890
	1,682	7,947	7,858

2. Instability risks attributed to the parent company

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

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

The following table presents the contractual maturity dates of the financial liabilities in undiscounted amounts (including interest payments):

	Book value	1th year	2th year	3th year	4th year	5th year and after	Total
	NIS, (in thousands)						
December 31, 2014:							
Accounts payable - trade	19,526	19,526	-	-	-	-	19,526
Accounts payable - other	7,947	7,947	-	-	-	-	7,947
Loans from banks and others	7,376	2,115	1,415	1,381	495	2,868	8,274
bonds	91,691	15,709	15,205	12,608	16,330	57,813	117,665
	126,540	45,297	16,620	13,989	16,825	60,681	153,412
December 31, 2013:							
Accounts payable - trade	13,343	13,343	-	-	-	-	13,343
Accounts payable - other	7,858	7,858	-	-	-	-	7,858
Loans from banks and others	10,665	3,621	2,105	1,391	1,355	3,434	11,906
bonds	99,115	17,128	23,029	21,994	20,959	36,523	119,633
	130,981	41,950	25,134	23,385	22,314	39,957	152,740

E. Disclosure of taxes on income attributed to the company

1. Tax laws applicable to the company:

   a. Income Tax Law (Adjustments for Inflation) - 1985

      According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

      In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancellation of the inflationary additions and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year).

   b. The Company has the status of an "industrial company" The Law for the Encouragement of Industry (Taxation), 1969, as defined by this law. According to this status and by virtue of regulations published thereunder, the Company is entitled to claim a deduction of accelerated depreciation on equipment used in industrial activities, as determined in the regulations issued under the Inflationary Law. The Company is also entitled to amortize a patent or rights to use a patent or intellectual property that are used in the enterprise's development or advancement, to deduct issuance expenses for shares listed for trading, and to file consolidated financial statements under certain conditions.

   c. On October 2000 the company filed an expansion program to the approved enterprise program. The expansion program was approved on January 2003. The tax benefits derived from the program will be calculated in accordance with the increase in revenues compared to the base year. Under this plan the company will be entitled to exemption from tax on undistributed profits during the first two years of the period of benefits and tax rate of 25% over the next five years of the benefit period. On April 22, 2003 the Company has submitted a final report regarding the execution of the approved enterprise program and its additions. The approved enterprise program and its addition were approved on February 2004 (hereinafter: "second program"). The second program year of operation is 2004.

      The period of tax benefits, detailed above, is subject to a time limit of the earlier of 12 years from the commencement of production, or 14 years from receiving the approval. If a dividend is distributed out of tax exempt profits, as above, the Company will become liable for tax at the rate applicable to its profits from the approved enterprise in the year in which the income was earned, as if it was not under the tax benefits track.

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

      In addition, on 2011, the company chose in year 2010 as an election year of further expansion program (hereinafter - "Third program"). Under this plan the company will be entitled to exemption from tax on undistributed profits during the first two years of the period of benefits and tax rate of 25% over the next five years of the benefit period. Benefits realization period is limited up to the year 2021. Tax benefits arising from the third program will be given above the average basis for the three years preceding the election year.

      The Company's management expects that the tax benefit period in the framework of the second program will begin in the reported year. The benefit period in respect of the third program has not yet begun.

Unitronics (1989) (R"G) Ltd

Additional information

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

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

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

In October 2014 the Company filed an application to the Bureau of the Chief Scientist of the Ministry of Industry, Commerce and Employment for approval under Section 20a of the Income Tax Ordinance – 1961 for the years 2012 – 2013. The Company estimates, based on its consultants opinion, It's highly probable to receive an approval to recognize 90% of the total development expenses submitted in the framework of the application.

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

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

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 71):

On August 5, 2013, the "Knesset" issued the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 which consists of Amendment 71 to the Law for the Encouragement of Capital Investments ("the Amendment"). According to the Amendment, the tax rate on preferred income form a preferred enterprise in 2014 and thereafter will be 16% (in development area A - 9%).

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

2. Tax rates applicable to the company

The Israeli corporate tax rate was 26.5% in 2014 and 25% in 2012 and 2013.

The deferred tax balances included in the financial statements as of December 31, 2014 are calculated according to the new tax rates that were substantially enacted as of the reporting date and, therefore, comply with the above changes, as applicable to the Company.

3. Final tax assessments attributed to the company

The Company has final tax assessments for all years up to 2010 (General Director of Israel Tax authority is authorized to extend the period of limitation for an additional year under certain conditions).

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

4. Deferred tax attributed to the company

	Statements of financial position		Statements of income		
	December 31,		Year ended December 31,		
	2014	2013	2014	2013	2012
	NIS in thousands				
Deferred tax liabilities:					
Property, plant and equipment	(494)	(467)	(27)	(113)	(354)
Intangible assets	(4,671)	(3,469)	(1,202)	(1,805)	(1,664)
	(5,165)	(3,936)	(1,229)	(1,918)	(2,018)
Deferred tax assets:					
Carry forward tax losses	-	486	(486)	(158)	645
Employee benefits	287	384	(2)	32	512
Other taxes assets (*)	1,758	1,481	-	506	975
	2,045	2,351	(488)	380	2,132
Deferred tax income (expenses), net			(1,717)	(1,538)	114
Deferred tax liabilities, net	(3,120)	(1,585)			

(*) Advances paid for excess expenses

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

	Statements of income		
	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Remeasurement gain (loss) from defined benefit plans	(96)	35	195

6. Taxes on income included in profit or loss:

Deferred taxes see Section 4 above.	(1,717)	(1,538)	114

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

7. Theoretical tax:

The reconciliation between the tax expense, assuming that all the income, expenses, gains and losses in profit or loss were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

	For the year ended December 31,	For the year ended December 31,		
	2014	2014	2013	2012
	(in thousands)			
	Convenience translation into EURO, (unaudited)	NIS		
Profit before subsidiaries losses and before taxes on income	3,103	14,660	8,326	6,306
Statutory tax rate	26.5%	26.5%	25%	25%
Tax computed at the statutory tax rate	822	3,885	2,082	1,577
Increase in taxes resulting from non-deductible expenses	8	36	50	32
Losses from previous years for which deferred taxes have been created this year and creating other tax assets	-	-	(507)	(680)
Temporary differences where deferred taxes were not recognized	(74)	(348)	69	(155)
Benefit in privileged tax rate	(390)	(1,840)	(1,336)	(877)
Update deferred tax balances for changes beneficiary tax rates	-	-	1,187	-
Other	(3)	(16)	(7)	(11)
Taxes on Income (tax benefit)	363	1,717	1,538	(114)

Unitronics (1989) (R"G) Ltd

Additional information

F. Capital notes, balances and substantial engagements with subsidiaries

1. Transactions with subsidiaries

	For the year ended December 31,	For the year ended December 31,		
	2014	2014	2013	2012
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Revenues	6,140	29,011	23,639	25,586
General & administrative expenses	176	835	801	723
Financing incomes	191	903	455	110

2. Engagements with subsidiaries

a. The consolidated company Unitronics Inc. was established by the Company in 2001 to market, sell and distribute the company's products 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 Unitronics building. The company pays to the consolidated company management and maintenance fees for the area used by the company.

c. The consolidated company Unitronics Aotomated Sulotions Ltd. (Formerly - Unitronics Parking Sulotions Ltd.) (hereinafter - "Aotomated Solutions") was established in the fourth quarter of 2011 to coordinate the marketing activities, planning, construction and maintenance of automated parking systems.

In October 2011, within the decision to centralize activities in parking solutions, the Company transferred to Aotomated solutions, assets not essential in return to allocation of shares in the subsidiary.

In March 2012 the company signed an agreement with Automated Solutions, effective from 1 October 2011 (hereinafter – "the effective date"), in which the Company will provide credit lines to automated solutions and services through the executive and operations departments. For such services automated solutions will be charged from the effective date and in each quarter according to mechanisms defined in the agreement.

In November 2014 the Company sold its wholly owned subsidiary Unitronics Systems Inc. to Automated Solutions in exchange to the par value of the shares of Unitronics Systems Inc. Since then Automated Solutions holds 100% of the equity and control of Unitronics System Inc.

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

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

3. Capital notes, guarantees and balances

a. On December 31, 2007 the company provided eight capital notes in the amount of NIS 1 million each to the subsidiary Unitronics Inc against the current balance.On December 31, 2010 and 2011 the Company provided additional capital notes in the amount of NIS 1 million each to the subsidiary Unitronics Inc. on December 31, 2012 the company provided additional capital notes in the amount of NIS 2 million each to the subsidiary Unitronics Inc. The balance of capital notes as at December 2013 and 2014 amount to NIS 12 million. The Capital notes are nominated in NIS, not linked, do not bear interest and the maturity date will not be before the end of 5 years from the date they were provided. The repayment of this capital notes will defer to other obligations and will prior only to distribution of assets to shareholders in liquidation.

   In addition there is ongoing balance of the subsidiary Unitronics Inc. as at December 31, 2014 in the amount of approximately NIS 3.1 million (approximately NIS 6.5 million as at December 31, 2013).

b. On December 31, 2014 the company committed not to repay NIS 35 million, from the ongoing balance to subsidiary Unitronics Automated Solutions Ltd. before January 1, 2016.

   In addition there is ongoing balance of the subsidiary Unitronics Automated Solutions Ltd. as at December 31, 2014 in the amount of approximately NIS 6.6 million (approximately NIS 3.5 million as at December 31, 2013).

c. As at December 31, 2014, the Company provided performance guarantees to customers as part of the agreements of subsidiaries to establishing automated parking systems in amount of NIS 16.1 million.

d. As at December 31, 2014 there is ongoing balance of the subsidiary Unitronics building management and maintenance (2003) Ltd. in the amount of approximately NIS 222 thousand (approximately NIS 213 thousand as at December 31, 2013).

G. Immaterial adjustment of comparative figures.

Immaterial inventory balances which were held by subcontractors were set off from suppliers' balances and were not part of the inventory item. According to these financial statements, the company adjusted the comparative figures so that the remaining inventory held by sub-contractors was reclassified into the inventory item. The adjustment above had no impact on the total equity of the company or on the comprehensive income (loss) to the comparison periods.

Chapter E - Statements by the CEO and CFO of the Corporation for 2014

a. **Statement by CEO pursuant to Regulation 9b(d)(1) of the regulations**
b. **Statement by CFO pursuant to Regulation 9b(d)(2) of the regulations**

<u>Statement by the CEO pursuant to Regulation 9b(d)(1) of the regulations:</u>

I, HAIM SHANI, certify that:

1. I have reviewed the periodic report of UNITRONICS (1989) (R"G) Ltd. ("**the corporation**") for 2014 ("**the Reports**").

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

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

4. I have disclosed to the corporation's Independent Auditor, the Board of Directors and Audit Committee and Financial Statements Review Committee of the corporation's Board of Directors, any fraud, whether material or not, involving the CEO or any direct report of the CEO, or involving any other employees that have a significant role in the financial reporting and in disclosure and control over financial reporting.

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

March 12, 2015

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HAIM SHANI, CEO

Statement by the CFO pursuant to Regulation 9b(d)(2) of the regulations

I, GAVRIEL BADUSA, certify that:

1. I have reviewed the financial statements and other financial information included in the periodic report of UNITRONICS (1989) (R"G) Ltd. ("**the corporation**") for 2014 ("**the reports**").

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

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

4. I have disclosed to the corporation's Independent Auditor, the Board of Directors and Audit Committee and Financial Statements Review Committee of the corporation's Board of Directors, any fraud, whether material or not, involving the CEO or any direct report of the CEO, or involving any other employees that have a significant role in the financial reporting and in disclosure and control over financial reporting.

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

March 12, 2015

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GAVRIEL BADUSA, CFO

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

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

4.1.1 2013 Shelf Offering Report

In January 2013, the public was offered and allocated NIS 53,125,000 par value debentures (Series 4) according to the 2011 Shelf Prospectus and according to the 2013 (as specified in sections 1.20.3 and 1.20.4 above). The proceeds (gross) for the debentures (Series 4) that were allocated according to the 2013 Offering Report totaled NIS 53,125,000.

The objective of the proceeds from the offering, as set out in the 2011 Shelf Prospectus and the 2013 Offering Report, shall be used by the Company for its needs, as they shall be from time to time, including for the financing of the Company's day-to-day activities, as shall be decided by the Board of Directors from time to time. The proceeds from the offering, which are not used by the Company, are from time to time invested, as the Company sees fit, in assets such as foreign currency or NIS deposits, banks, government bonds and / or corporate bonds with a high credit rating (at least AA) and government short-term-loans etc., as specified in the 2013 Offering Report.

4.1.2 2014 Shelf Prospectus and 2014 Offering Report

In September 2014 the public was offered and allocated NIS 40,000,000 par value of debentures (Series 5) according to the 2014 Shelf Prospectus and the 2014 Offering Report (as specified in section 1.20.6 above). The proceeds (gross) for the debentures (Series 5) that were allocated according to the 2014 Offering Report totaled NIS 40,000,000.

The objective of the proceeds from the offering, as set out in the 2014 Offering Report, were to be used by the Company for full early repayment of the outstanding debentures (Series 3) in circulation, according to the terms of repayment of this series. The full redemption was implemented in one payment on October 30, 2014 by a payment of a total of NIS 38,100 thousand (for further details of the full early redemption of debentures (Series 3), see the Immediate Reports of the Company on an Event or Matter Deviating from the Ordinary Course of the Corporation's Business dated October 7, 2014, reference number 2014-01-173862, October 19, 2014, reference number 2014-01-176886 and October 26, 2014, reference number 2014-01-181248, which is hereby included by way of reference). Until the use of the proceeds from the offering, the Company deposited and invested these funds in solid assets such as foreign currency or NIS deposits, banks, government bonds and / or corporate bonds with a high credit rating higher (at least AA) and government short-term loans etc.

4.1.A. List of Investments in Active Subsidiaries and Included Companies (Reg. 11)

Below are details regarding the Company's investments in active subsidiaries and included companies at the date of the financial statements:

Subsidiary	**Type of Share**	**No. of Shares**	**Total par value**	**Value of Shares in the Financial Statement**
Unitronics Building Management and Maintenance (2003) Ltd.	Ordinary - NIS 1	1,000	NIS 1,000	NIS 1,000
Unitronics Inc. (Foreign Company)	Ordinary – US$ 0.01	1,000	US$ 10	US$ 10
Unitronics Automatic Solutions Ltd. (formerly Unitronics Parking Solutions Ltd)	Ordinary – NIS 0.01	116,320,000	NIS 116,320	NIS 116,320
Unitronics Systems Inc. (Foreign Company) (held by Unitronics Automatic Solutions Ltd.)	Ordinary- US$ 0.001	1,000	US$1	US$1

Subsidiary	**Value in the separate financial statement of each company, attached to the Company's financial statements** **NIS thousands**	**Share of Company's holdings in the capital, in voting and in the power to appoint directors in the total issued shares**
Unitronics Building Management and Maintenance (2003) Ltd.	(308)	100%
Unitronics Inc. (foreign company)	2,445	100%
Unitronics Automatic Solutions Ltd. (formerly Unitronics Parking Solutions Ltd)	(19,442)	100%
Unitronics Systems Inc. (Foreign Company) (*)	(4,497) (**)	100%

(*) Held by Unitronics Automatic Solutions Ltd.
(**) In the financial statement of Unitronics Automatic Solutions Ltd.

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

There was no change in the Company’s investments in subsidiaries and in included companies during the period of the Report, except for the following: on November 25, 2014 the Company sold all its holdings in Unitronics Systems Inc. to Unitronics Parking Solutions Ltd (a wholly owned subsidiary of the Company) in exchange for the par value of the shares (US$ 1).

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

For details of the comprehensive income of the Company's active subsidiaries and included companies in the last reported year that ended on or before the date of the statement of financial position of the corporation, adjusted to the date of the statement of financial position of the corporation –see section 1.22.3.8 in this Periodic Report.

4.4 Trading on the Stock Exchange (Reg. 20)

During the reporting year NIS 40,000,000 par value Debentures (Series 5) of the Company were listed for trading, as specified in section 4.1.2 above.

During the reported year, trading in securities issued by the Company was not suspended.

As of the date of this report, the Company holds 1,676,192 dormant shares. These dormant shares do not confer any rights on the Company (including any voting rights and/or rights in the equity).

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

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

Name	**Role**	**Employment**	**Stake in corporate capital**	**Salary (NIS thousands)**	**Bonus (NIS thousands)**	**Share-based payment, management fees, consulting fees, interest, rent and other**	**Total (NIS thousands)**
Mr. Haim Shani	CEO and Chairman of the Board of Directors	100%	61.38% (**)	1,180	411	-	1,591
Mr. Yair Goldberg	CEO in US subsidiary	100%		779	179		958
Mr. Amit Harari	VP and Manager Product Division	100%		607	189	-	796
Ms. Bareket Shani	Director, Deputy CEO and VP Human Resources,	100%		674	-		674
Mr. Daniel Nygate	Director Purchasing	100%		486	50	-	536
	Other directors			353	-	-	353

** As of December 31, 2014

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

4.5.2 Remuneration policy – on December 9, 2013, the annual general meeting of the Company's shareholders approved a remuneration policy for Company officers pursuant to Amendment No. 20 to the Companies Law (for the version of the approved remuneration policy, see the Immediate Report on the Convening of a General Meeting dated November 17, 2013, reference number: 2013-01-193608, included herein by way of reference) (hereinafter: "**the Remuneration Policy**"). As of the date of this report the terms of office and employment of all the officers in the Company conform to the Remuneration Policy since the clause with respect to entitlement to equity-based compensation in the employment agreements of the Company CEO and Chairman of the Board, Mr. Haim Shani, and the Vice President of Human Resources, Ms. Bareket

Shani was cancelled during the reporting year, as specified in section 4.5.3 below. The Company does not intend to apply the Remuneration Policy to employees of the Company who are not officers of the Company.

4.5.3 Mr. Haim Shani and Ms. Bareket Shani– the Company is bound by personal employment agreements with Mr. Haim Shani (controlling shareholder and Chairman of the Board of Directors) and with Ms. Bareket Shani (Mr. Shani's wife, who also serves as a member of the Board of Directors) (hereinafter in this section: "**Employment Agreements**"). In accordance with the agreements, Mr. Shani serves as the Company's CEO, responsible for the management of the Company's entire business and Ms. Shani as Deputy CEO and Head of Human Resources, both holding full time jobs.

Pursuant to the employment agreements, as approved on March 27, 2011 by the Company Audit Committee and Board of Directors, and later on May 12, 2011 by the General Meeting of Company Shareholders (for further details see report dated May 12, 2011, reference number 2011-01-146499 which is hereby included by way of reference), as of June 1, 2011, Mr. Shani's salary is NIS 60,000 per month and Ms. Shani's salary is NIS 30,000 per month. The salary is linked to the Consumer Price Index, such that as of January 2012, and each year, an amount equal to the percentage of change in the past year's CPI will be added to their wages. The base index for the purpose of calculating the amount of linkage to be added in January 2012 was the known index on March 2011, which was published on April 15, 2011. In accordance with the decisions of the Remuneration Committee, dated May 27, 2014 and July 20, 2014, and the decisions of the Board of Directors of the Company dated June 30, 2014 and July 20, 2014 and the General Meeting of Company Shareholders on September 4, 2014, the employment agreements of Mr. Haim Shani and Ms. Bareket Shani were amended and reaffirmed to make them valid until September 4, 2017. The employment agreements were amended, *inter alia*, in order to adapt them to the provisions of the Remuneration Policy of the Company by eliminating the clause entitling the controlling shareholder and his wife to options to purchase shares of the Company, and, in addition, cancelling the clause in the employment agreement of Mr. Shani requiring a special majority of the Board of Directors to end the employment agreement with Mr. Shani (for further details of any of the above, see the report dated September 4, 2014 reference number 2014-01-151716 which is hereby included by way of reference).

Mr. Shani's salary is split such that part of the overall wages is paid by a subsidiary wholly owned by the Company, Unitronics Inc., and the remainder is paid by the Company, in respect of his services as CEO of the Company; as a result of the split, there is no added cost of wages to the Company (consolidated with the subsidiary) compared to the cost of wages without the split.

In addition to the salary specified above, Mr. and Ms. Shani are entitled to receive the following benefits: (a) standard social benefits, such as a senior officers' insurance (contributions of 5% of the monthly salary by the employee and 13.33% - by the Company); (b) a study fund (contributions of 2.5% of the monthly salary by the employee and 7.5% - by the Company), (c) use of Company car (without determining a specific car category) and expense reimbursement; and (d) an annual 30-day vacation, which may be accumulated for up to 2 years.

In addition, Mr. Haim Shani is entitled to an annual bonus in respect of each calendar year commencing 2005, and as long as Mr. Shani is employed as CEO of the Company, at a rate of 7.5% of the pre-tax profit on that year (cost to the Company) (hereinafter: "**the Future Bonuses**"). The Future Bonuses shall be calculated each year (and not cumulatively), without accounting for losses, and will be paid within 30 days of the date of approval of the financial statements by the Company's Board of Directors, in respect of each calendar year as aforesaid, and approval of the Company's Remuneration Committee that their terms are consistent with the Remuneration Policy of the Company and the terms of the employment agreement of Mr. Shani.

Termination of Mr. Shani's employment agreement, following its amendment during the reporting year as specified above, requires the approval of a simple majority of the Board of Directors and a prior notice of at least 6 months. Mr. Shani may terminate his employment agreement for any reason, subject to a 3-months' notice. As for Ms. Shani, each party may terminate the agreement subject to a 2-months' notice, and the Company would be required to provide a material explanation for the termination, if initiated by the Company.

On March 25, 2014, the Remuneration Committee approved that the payment of a bonus amounting to NIS 138 thousand to Mr. Haim Shani in respect of 2013 according to the terms specified above is in accordance with the terms of the Remuneration Policy of the Company and the employment agreement of Mr. Shani. On March 27, 2014 the Board of Directors of the Company approved that the remuneration paid to Mr. Shani, including the payment of the bonus as aforesaid, is consistent with the Remuneration Policy of the Company, and is fair compensation with respect to the essential services of Mr. Shani and is acceptable in companies with a volume of activity similar to that of the Company.

On March 10, 2015 the Remuneration Committee approved that the payment of a bonus amounting to approximately NIS 411 thousand to Mr. Haim Shani in respect of 2014, as per the terms described above is in accordance with the Company's Remuneration Policy and the employment agreement of Mr. Shani. On March 12, 2015 the Board of Directors of the Company approved that the remuneration paid to Mr. Shani, including the payment of the bonus as aforesaid, is consistent with the Company's Remuneration Policy, and is fair compensation with respect to the essential services of Mr. Shani and is acceptable in companies with a volume of activity similar to that of the Company, *inter alia*, for the following reasons:

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

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

The material dependence on the continued services of Mr. Haim Shani and Ms. Bareket Shani is due, *inter alia,* to the following reasons:

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

(2) Mr. Shani and Ms. Shani have a well-known reputation in the Company's industry, and the Company's favorable image and good name is tightly linked

to the fact that Mr. Shani and Ms. Shani are controlling shareholders and officers of the Company.

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

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

4.5.4 Mr. Amit Harari - In October 2010, an employment agreement (hereafter in this section, the "**Agreement**") was signed between the Company and Mr. Amit Harari. The agreement was for an unspecified period and it was stipulated that any party thereto may terminate it at any time by giving 30 days prior notice in writing.

Effective January 01, 2012 Mr. Harari is entitled to an annual bonus for meeting quantitative and qualitative targets in an amount not to exceed NIS 375 thousand, subject to the Company's Remuneration Policy. The agreement also stipulates that Mr. Harari is entitled to the following fringe benefits: pension insurance, education fund and the use of a company car. In addition, under the agreement Mr. Harari is also entitled to social benefits (vacation days, sick days and convalescence pay). Mr. Harari serves as the Company's Manager Products Division.

4.5.5 Mr. Daniel Nygate – On November 22, 2012, an employment agreement (hereinafter in this section: the "**Agreement**") was signed between the Company and Mr. Daniel Nygate. The Agreement was made for an unspecified period, and it was stipulated that a party thereto may terminate it at any time by giving a 30-days prior notice in writing.

Mr. Nygate is entitled to the following fringe benefits: social contributions to executive insurance, a pension fund, a study fund and the use of a company car. In addition, under the agreement Mr. Nygate is entitled to social benefits (vacation days, sick days and convalescence pay). Mr. Nygate serves as VP and Manager of Purchasing in the Company.

4.5.6 Mr. Yair Goldberg – On May, 2007, an employment agreement (hereinafter in this section: the "**Agreement**") was signed between the Company and Mr. Yair Goldberg. The Agreement was made for an unspecified period, and it was stipulated that a party thereto may terminate it at any time by giving a 60-days prior notice in writing.

Effective January 01, 2013 Mr. Goldberg is entitled to an annual bonus for meeting qualitative targets in an amount not to exceed USD 176 thousand, The agreement also stipulates that Mr. Goldberg is entitled to the following fringe benefits: social contributions to executive insurance, a pension fund, a study fund and the use of a company car. The provisions of the agreement further entitled Mr. Goldberg to social benefits (vacation days, sick days and convalescence pay).

4.5.7 According to the resolution of the Audit Committee and Board of Directors, approved by the Annual General Meeting of Company Shareholders on August 9, 2001, the Company's Independent Board Member and directors who do not serve as officers at the Company are entitled to annual compensation and participation compensation at the "fixed amount" specified in the Second and Third Addendum to the Companies Regulations (Rules regarding Compensation and Expense Reimbursement of External Directors), 2000 (hereinafter: "**Compensation Regulations**"), and in accordance with the relevant rating of the Company's capital.

In accordance with the Company's Remuneration Policy, the compensation and expense reimbursement of directors that are not officers of the Company are identical to the compensation and expense reimbursement paid to external directors of the Company.

4.5.8 The Company has a directors and officers liability insurance policy for a sum of US$ 5,000,000 (five million US dollars) per event and in total, in respect of damages that could occur during the insurance period (and a further US$ 1,000,000 in respect of legal defense costs in Israel) (hereinafter: "**the Policy**"). The Company's deductible for insurance claims is between $10,000 and $50,000 per event, based on the type of insurance event and claim location. The insurance period is effective retroactively from August 9, 1989, and is renewed each year, with the approval of the Company's management, which was authorized by the General Meeting on April 12, 2005 to renew the directors and officer liability insurance policy from time to time, under similar conditions, for additional periods of up to 18 months each time (hereinafter in this section: "**the Framework Agreement**").

Further to the adoption of the Remuneration Policy and pursuant to the terms thereof, on March 25, 2014, the Audit Committee and Board of Directors approved the renewal and extension of the Policy for directors and officers of the Company, who are controlling shareholders of the Company or their relatives, as well as for directors and officers who are not controlling shareholders of the Company and their relatives, for a period between July 1, 2013 and June 30, 2014 on the same terms as those of the Framework Agreement and approved the renewal and extension of the Policy for directors and officers of the Company, who are controlling shareholders of the Company or their relatives, as well as for directors and officers who are not controlling shareholders of the Company and their relatives, for an additional 12-month period from July 1, 2014 to June 30, 2015, (for details see Immediate Report on a Transaction with a Controlling Shareholder or with a Director, which does not require the Approval of the General Meeting, dated March 25, 2014, reference number: 2014-01-023721, which is hereby included by way of reference).

4.5.9 For details on payments made during the period of the Report to interested parties employed by the Company (including related payments), see section 4.5.3 above.

4.5. A <u>Control of the Corporation (Reg. 21a)</u>

The controlling shareholder of the Corporation is Mr. Haim Shani. For more details about Mr. Shani, see section 4.10 below.

4.6 Transactions with the Controlling Shareholder (Reg. 22)

Below are details, to the best of the Company's knowledge, regarding each transaction with the controlling shareholder of the Company or the controlling shareholder of the Company has a personal interest in its approval, which the Company has entered into in 2014, or at a date after the end of 2014, until the date of this Periodic Report, or which is still in effect as of the date of this Periodic Report:

Other transactions which are not enumerated in section 270(4) of the Companies Law:

4.6.1 Unitronics Building Management and Maintenance (2003) Ltd. (hereinafter: "**Unitronics Management**"), a wholly owned subsidiary of the Company, provides management and maintenance services for the floors of the Unitronics Building. These services include, primarily, service for elevators and air conditioning, electrical and fire detection systems in the Unitronics Building (contacting various suppliers in case of malfunction and/or for servicing and/or periodic testing, as per manufacturer's/supplier's instructions) as well as provision of cleaning, pest control, gardening and security services (via subcontractors) (hereinafter: "**Management Services**"). In return for these services, Unitronics Management charges monthly management fees at a rate of NIS 9.5 per square meter of each tenant's space in the Unitronics Building, and in addition charges separately for electricity consumption according to readings of separate meters of the Company and for the other tenants of the Unitronics Building (who share the expense, pro-rated to the area used by each tenant).

In accordance with a resolution of the Audit Committee and the Board of Directors from May 2003, Unitronics Management also provides maintenance services to other offices of the Unitronics Building, which are not used by the Company and are leased by a company wholly owned by Mr. Haim Shani and Ms. Bareket Shani,provided that: (a) Unitronics Management provides equal services to all the tenants of the Unitronics Building, which are similar to the services provided by other management companies in the vicinity of the Unitronics Building; and (b) the effect of providing such services on the profitability, assets or liabilities of Unitronics remains immaterial. According to the resolution of the Company's Board of Directors, any deviation of the above resolutions requires the Board's approval and any other approval mandated by law. There is no written contract between the Company and Unitronics Management, and Mr. and Ms. Shani, with regard to the management services. In practice, Mr. and Ms. Shani require the tenants leasing the private floors (including the Company - see section 4.6.2 below) to pay the full management fees charged by Unitronics Management, and said tenants pay Unitronics Management directly for management services at the same rate per square meter paid by the Company (other than consumption of electricity, for which each tenant is charged according to a separate electricity meter).

For these services, Unitronics Management was paid in total NIS 1,228 thousand, NIS 1,240 thousand and NIS 1,127 thousand for the years 2014, 2013 and 2012, respectively; of which NIS 835 thousand, NIS 802 thousand and NIS 724 thousand, respectively, were paid by the Company, and NIS 393 thousand, NIS 438 thousand and NIS 403 thousand, respectively, by third parties.

Since 2003, the management services provided by Unitronics Maintenance have been discussed, from time to time, at meetings of the Audit Committee and the Board of Directors, *inter alia*, as part of the discussions regarding the approval of a leasing agreement of areas in the Unitronics Building which were rented to the Company by the controlling shareholders, Messrs. Haim and Ricky Shani (as specified in section 4.6.2 below), and, at times, including in July 2014, not as part of the discussions regarding the approval of the aforementioned agreement. These discussions also included the examination of the management fees compared to other buildings in Airport City and it was found that management fees are at market conditions.

4.6.2 The Company leases space in the Unitronics Building, which is located in Airport City ("**Unitronics House**") from a company controlled by Mr. Haim Shani, the controlling shareholder of the Company, who serves as Chairman of the Board of Directors and Company CEO, and Ms. Bareket Shani, his wife, who serves as a director and Head of Human Resources in the Company (hereinafter: the "**Lessor**"). For details see section 1.13.2 to Chapter A of this Periodic Report as well as Immediate Report of a Transaction between a Company and the Controlling Shareholders dated June 14, 2012, reference no: 2012-01-086748 hereby included by way of reference.

As part of their reasons for the approval of the transaction, the Audit Committee and the Board of Directors of the Company determined that the continued growth in the Company's operations, including the recruitment of additional personnel at the Company, has created a need for the continued lease of an area in the size of the leased space. Approval of the said transaction will allow the Company to continue to lease an area in a size which is commensurate with the Company's needs, in the most rapid and effective manner possible, both in the products segment and in the systems segment, in the same building in which the Company currently operates, and without any relocation costs and/or costs that resulted from the fact that the Company's operations in these areas were split between different centers (for further details regarding the building in the Yavne Industrial Zone which serves, as of the date of the publication of this report, the parking solutions field of the Company, see section 1.13.4 of the Report).

Examinations that were conducted by the Company and presented to the Audit Committee and the Board of Directors of the Company, show that the terms of the lease are similar to the terms upon which areas are leased in the area owned by the lessor in the Unitronics Building to third parties, which are not related to the Company or to the controlling shareholders of the Company, and they also reflect a benefit as compared with the lease terms (price/ term) in effect in Airport City in general for areas of a similar and/or inferior standard of finish, and which offer similar and/or inferior general services, and which, to the best of the Company's knowledge, were leased on the relevant dates at prices ranging between NIS 65 and NIS 100 per square meter (not including management and maintenance fees). In addition, the possibility to terminate the Agreement at any time allows the Company to adjust the use to its actual needs.

In addition, the Audit Committee and the Board of Directors of the Company determined that the transaction is in accordance with market conditions and in the normal course of business, and that it does not harm the Company's interests. On June 14, 2012, the transaction was approved by the general meeting of Company shareholders (for additional details see Immediate Report on Results of a Meeting to Approve a Transaction with a Controlling Shareholder and/or to Approve a Private Offer, dated June 14, 2012, which is included herein by way of reference, reference no: 2012-01-156780).

<u>Transactions Enumerated in Section 270 (4) of the Companies Law</u>

4.6.3 For details of the transactions between the Company and its controlling shareholder or transactions in which the controlling shareholder has a personal interest in the approval thereof, as specified in section 270 (4) of the Companies Law, in which the Company entered into an agreement in 2014 or at a date after the end of 2014 up to the date of this Periodic Report, or which are still in force at the date of this Periodic Report, see section 4.5.3 above (regarding the employment agreements of Messrs. Shani) and section 4.16.1 below (regarding the issue of a Letter of Indemnification and Exemption to Messrs. Shani).

4.6.4 Prior to the publication of the 2011 Shelf Prospectus (hereinafter: the "**Shelf Prospectus**"), discussions were held between the representatives of the Israel Securities Authority (hereinafter: the "**ISA**") and representatives of the Company in connection with the ISA's request of the Company to act to amend the Company's Articles in connection with the mechanism for the appointment of members of the Board of Directors, which is a mechanism known as a staggered board of directors.

Amid the Company's disagreement with the position of the ISA in this matter, and so as to allow the publication of the prospectus without fully exhausting the discussion of this matter, the Company gave notice (in writing) to the ISA, prior to the making of the amendment, of its consent to the following principles (which shall apply as long as the Company's Articles are not modified, as aforesaid):

(A) Even though the ISA and the Company have not fully exhausted the discussion of the matter of the amendment which the ISA has requested be made to the Company's Articles, in light of the current structure of holdings in the Company, the need does not arise at the present time to reach a determination in this matter, and accordingly, the ISA's permission for the publication of the prospectus was given subject to the terms set forth in section (b) below, which shall remain in full force and effect, for such time as the provisions of the Company's Articles include a mechanism known as a staggered board of directors.

(B) If, in the future, there is no controlling shareholder of the Company, or if the controlling shareholder of the Company holds less than 45% of the voting rights of the Company (and for this purpose, the terms "holding" and "control" shall be as construed in the Securities Law), and the Company shall wish to offer to the public shares or securities convertible into shares (including securities that may be exercised into shares) during the period in which there is no controlling shareholder of the Company or the controlling shareholder of the Company holds less than 45% of the voting rights of the Company, as aforesaid, or if, as a consequence of the offer to the public, as aforesaid, there shall be no controlling shareholder of the Company, or the controlling shareholder of the Company shall hold less than 45% of the voting rights of the Company, the Company undertakes to apply to the ISA for the purpose of the completion of the discussion in the aforesaid matter, and it has undertaken not to make use of the 2011 Shelf Prospectus by way of the publication of shelf proposal reports by virtue of the Shelf Prospectus for the purpose of offering to the public shares or securities which are convertible into shares as aforesaid prior to the completion of the discussion of the matter, whether before the institutions of the ISA or before any other competent institution. In addition, the foregoing shall also apply to any private placement of shares or securities which are convertible into shares if, on the said date, there shall be no controlling shareholder of the Company, or the controlling shareholder of the Company shall hold less than 45% of the voting rights of the Company, or if, as a consequence of the private placement, there shall be no controlling shareholder of the Company, or the controlling shareholder of the Company shall hold less than 45% of the voting rights of the Company.

The Committee's notice to the ISA further stated that the said notice or the ISA's permission to the publication of the 2011 Shelf Prospectus does not and shall not constitute any form of consent by any of the parties to the claims of any other party. It was also clarified that the said notice or the ISA's permission shall not modify or derogate from the Company's position or the ISA's position in the above-mentioned matter, once the need shall arise to fully exhaust the discussion thereof.

Negligible Transactions

4.6.5 On August 30, 2012 the Company Board of Directors adopted the Audit Committee’s recommended negligible transactions procedure (hereinafter: the "**Procedure**"), as defined in regulation 41(A) (6) of the Securities Regulations (Annual Financial Statements), 2010.

According to the procedure, a transaction will be considered a negligible transaction when all of the following conditions are met:

(A) The transaction is not a negligible transaction as defined in the Companies Law, 1999;

(B) The transaction is not classified by the company as an event required to be reported in accordance with Regulation 36 of the Securities Regulations (Periodic and Immediate Reports), 1970;

(C) The amount of the transaction is less than NIS 20,000 and the total amount of that transaction together with all the transactions with the same stakeholder during the preceding 12 months is less than NIS 60,000 (these amounts are adjusted to the rate of increase in the Consumer Price Index relative to the index published on July 15, 2012). The amounts of the transaction for this purpose will be the amounts to which the stakeholders are entitled or owed and not the subject transaction amounts and agreements as a whole;

(D) The lack of qualitative considerations arising from the circumstances of this matter, such as if the transaction is perceived as a significant event by the Board of Directors and has the ability to influence management decisions or if, as part of the transaction, the stakeholders are expected to receive benefits which it is important to report immediately.

Interested-party transactions are classified as negligible transactions by the Chief Financial Officer of the Company in accordance with the above criteria and its approval is subject to the provisions of the law.

The procedure provides additional guidance regarding negligible transactions, as detailed in an Event or Case Report that deviate from normal corporation transactions dated August 30, 2012, reference number 2012-01-225675, which is hereby included by way of reference.

During the period of the Report no negligible transaction, as defined above, were carried out with a controlling shareholder or where the controlling shareholder has a personal interest therein, and the Company is not a party to such negligible transactions.

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

For details regarding shares and other securities of the Company, subsidiary and related company of the Company held by any interested party in the Company as of the report publication date, see Immediate Report on the Holdings of Interested Parties and Senior Officers dated January 9, 2013 (reference number 2013-01-092992), which is hereby included by way of reference.

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

4.8.1 Registered and Issued Capital

For details regarding registered and issued capital see Note 17 in the Financial Statements (Section 3 of this Periodic Report).

4.8.2 Convertible Securities

The Company has no convertible securities.

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

For details on the registry of shareholders of the Company as of the date of publication of this Report, see the Immediate Report dated February 1, 2015 (reference number 2015-01-022624), which is hereby included by way of reference.

4.9.A Registered address (Reg. 25a)

Registered Company Office: Unitronics Building, Ha-Arava Street, Airport City, PO BOX 300, Ben Gurion Airport, 70100
Email: info@Unitronics.com.
Telephone number: 03-9778888
Fax number: 03-9778877

4.10 Board Members of the Corporation (Reg. 26)

Name ID Number, DOB Citizenship	Address for court notices	Board of Director Committee Memberships Independent Director/ as defined in the Companies Law - Yes / No:	Employee of the the Company, a subsidiary thereof, a related company thereof or that of an interested party – Position or positions served therein	Date of commencement of service as a Director of the Company	Education and occupation during the past 5 years, with details of the acquired profession or educational field, the educational institution and the academic degree or professional diploma held as well as details of corporations in which the Director serves as a Director	According to the best knowledge of the Company and its Directors is the Director a family member of an interested party in the Company? - Yes / No (details)	Does the Company regard the Director as having accounting and financial expertise?
Haim Shani 056548142 31/7/1960 Israeli	20, Bazelet Street, Shoham	No; Has professional qualifications	Yes CEO of the Company, Director and senior officer in the subsidiaries Unitronics Automatic Solutions Ltd. and Unitronics House Management and Maintenance (2003) Ltd., Director and Chairman of the Board of Directors of Unitronics Inc., Director and Chairman of the Board of Unitronics Systems Inc.	20/08/1989	High school education; Serves as a Board member of Cardiosense Ltd., Corpus Callosum Ltd., and Netrix Ltd.	Yes, husband of Ms. Bareket Shani, a Director and officer of the Company (see details below)	No
Bareket Shani 0581366311 30/6/1963 Israeli	20, Bazelet Street, Shoham	No; Has professional qualifications	Yes, Deputy CEO and Director of Human Resources, Director of Unitronics	6/7/1999	Academic. B.Sc. in Industrial Engineering and Management from the	Yes, wife of Mr. Haim Shani, Chairman of the Board of	No

			House Management and Maintenance (2003) Ltd., Vice President and Corporate Secretary of the subsidiary Unitronics Inc., President and Corporate Secretary of the subsidiary Unitronics Systems Inc.		Technion	Directors and CEO.	
Zvi Livne 010025658 22/7/1947 Israeli	20, Yohanan Ha-Sandlar Street, Haifa	No; The Audit Committee, The Financial Statements Review Committee, the Remuneration Committee; has accounting and financial expertise as well as professional qualifications	No	8/7/1999	Academic. BA in Economics and Accounting from Tel Aviv University. Master's degree in Business Administration (MBA) from the University of Tel Aviv. CPA certificate holder; serves as a financial and commercial consultant to several Israeli companies; Senior partner at Ziv, Shifer & Co. CPA; serves as a Board member of Unitronics House Management and Maintenance (2003) Ltd., P.M.L. - Particle Monitoring Technologies Ltd. and Alberta Nano Monitoring Systems Ltd.	No	Yes

Moshe Baraz 058263476 2/8/1963 Israeli	73, Adulam Street, Shoham	Yes; External director, the Audit Committee, The Financial Statements Review Committee, the Remuneration Committee; has accounting and financial expertise as well as professional qualifications	No	8/12/2006	Academic. BA in Accounting, College of Management; Serves as Vice President and CFO of Kfar Ha-Macabia since 2004, and as a Board member of Gam Dagan Management and Holdings, Ltd.	No	Yes
Joel Sela 051562152 21/4/1953 Israeli	66, Nurit Street, Shoham	Yes; External director, the Audit Committee, The Financial Statements Review Committee, the Remuneration Committee; has accounting and financial expertise as well as professional qualifications	No	23/9/2008	Academic. BA in Economics and Accounting from Tel Aviv University. CEO of Net Intent Ltd. since February 2001. Many years of experience as the CFO and CEO of companies in various fields.	No	Yes
Edna Ramot 050499128 26/1/1951 Israeli	2, Harduf Street, Ramat Efal 52960	No; Has professional qualifications	No	22/9/2011	Academic. BA in English Literature and Linguistics from Bar Ilan University. Between 2007-2011, self-employed in the field of personal coaching and business consultancy. Served as CEO of the Jerusalem International Convention Center for 10 years. Member of the Board member of	No	No

					"Israel Experience" since 2013.		

4.11 Senior Officers (Reg. 26A)

Below are details with regard to each of the senior officers of the Company whose details were not set forth in Section 4.5 above:

Officer Name	**Gabriel Badusa**	**Avraham Peleg**	**Amit Harari**	**Eyal Horowitz**	**Hilit Bar Sorya**	**Daniel Raphael Nygate**
ID. No.	059616599	025647991	033591843	058876574	033104258	13105820
Date of birth	19/3/1965	1/9/1973	25/11/1976	5/7/1964	23/8/1976	13/12/1964
Date on which the officer assumed office	23/7/2014	4/5/2014	26/10/2010	18/6/2000	22/11/2012	22/11/2012
Position held by the officer in the Company, a subsidiary thereof, a related company thereof or that of an interested party in the Company; Is the senior officer an independent authorized signatory of the corporation – This fact is to be mentioned	Chief Financial Officer; Independent signatory	Controller	Vice President and Manager Products Division	Internal Company Auditor	Internal Company Legal Counsel, Independent signatory	Vice President and Director of Purchasing
Is the officer an interested party in the corporation or related to another senior officer or to an interested	No	No	No	No	No	No

party in the Company?						
Education and business experience during the past five years	Academic, Bachelor's degree in Accounting from Bar Ilan University and an MBA (Finance) from Bar Ilan University, CPA certificate holder. Prior to joining the Company, served as CFO Cham Foods (Israel) Ltd.	Academic, BA in Business Administration (Accounting), The College of Management, Israel certified CPA. Prior to joining the Company served as Controller of the Hagag Group Real Estate Entrepreneurship Ltd. and before as a Senior Auditor at Amit, Halfon - Accountants	Academic, B.Sc. in Industrial Engineering from the Technion, MBA from Tel Aviv University. Prior to joining the Company served as Vice President of Computerized Business Solutions Inc.	Academic, BA LL.B from the Interdisciplinary Center Herzliya, BA in Business Management and Accounting from The College of Management, Israel, Phd in Business Management from IUBL, USA, certified CPA, Head and Managing Partner of the Oren Horowitz & Co accounting firm until its dissolution in 2008; Chairman and CEO of the Horowitz Idan Sabo Tevet & Cohen Tabach accounting firm from 2008; Senior Lecturer Academic Track – The College of Management	Academic, BA LL.B from The College of Management. MBA with Honors from Heriot - Watt University, Edinburgh Business School, Scotland, member of the Israel Bar since 2002 Work experience: Since February 2011, Legal Counsel (Internal), Unitronics; 2009-2011: Attorney and Assistant to the CEO of the Davidoff Group	Academic, B.Sc. in Industrial Engineering from Ben Gurion University; Prior to joining the company, served as Sales Director at Amdocs

4.12 <u>Authorized Signatories of the corporation (Reg. 26b)</u>

In accordance with the Board of Directors' resolution dated November 22, 2012, and pursuant to a Securities Authority's directive from January 3, 2008, regarding disclosure of the number of authorized signatories in a corporation, there are four independent signatories in the Company: the controlling shareholder of the Company, Mr. Haim Shani, his wife Ms. Bareket Shani, Mr. Gabriel Badusa and Ms. Hilit Bar Sorya.

(For details, see Immediate Report on an Event or Matter Deviating from the Ordinary Course of the Corporation's Business, dated July 23, 2014, reference number 2014-120-216 hereby included by way of reference.)

4.13 <u>Corporation's Independent Auditor (Reg. 27)</u>

Amit Halfon, CPA - 16 Abba Hillel Street, Ramat Gan.

4.14 Amendment of the Articles or Memorandum of Association (Reg. 28)

In report year no changes were made in the memorandum or articles of association of the Company.

4.15 Recommendations and Resolutions of the Directors and Resolutions of Extraordinary General Meeting (Reg. 29)

4.15.1 **Directors' recommendations to the General Meeting and resolutions that do not require the approval of the General Meeting:**

On October 7, 2014 the Board of Directors of the Company decided on full early redemption of the outstanding balance of the debentures (Series 3) of the Company. For further details see section 1.20.3 above.

4.15.2 **Resolutions of a special shareholders meeting dated September 4, 2014:**

On September 4, 2014, the General Meeting of the Shareholders of the Company passed the following resolutions: (a) to appoint Mr. Joel Sela as an external director in the Company for a third term; (b) to reaffirm the employment agreements of Mr. Haim Shani and Ms. Bareket Shani, the controlling shareholder in the Company and his wife, for a further period of three years from the date of the meeting, until September 4, 2017, pursuant to Section 275 (1A) of the Companies Law; (c) to approve the cancellation of the clause of the bonus of stock options of the Company in the employment agreements of Mr. Haim Shani and Ms. Bareket Shani and cancel the requirement for a majority of 75% of the Board of Directors to end the employment agreement of Mr. Haim Shani; (d) to reaffirm the Letters of Indemnification and Exemption of Mr. Haim Shani and Ms. Bareket Shani.

For details see Immediate Report on Results of a Meeting to Approve a Transaction with a Controlling Shareholder and/or Approve a Private Offer and/or Approve a Double Term of Office Chairman-CEO and/or Appoint an External Director, included herein by way of reference, dated September 4, 2014, reference no: 2014-01-151716.

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

Below are details regarding provisions of exemption, insurance and undertaking to indemnify officers, in effect as at the date of this Periodic Report, which are subject to the Remuneration Policy of the Company (for details, see section 4.5.2 above):

4.16.1 The Company's Articles of Association permits the exemption, indemnification, and insurance of officers, to the maximum extent permitted by the Companies Law.

Indemnification and exemption: The Company has undertaken towards officers of the Company that the Company would indemnify them, in advance, in specific cases (hereinafter: "**the Determining Events**"), in an amount not exceeding 25% of the Company's equity, as recorded in its financial statements as of the date of the indemnification, for all the officers. This amount will be added to the amount of all insurance benefits in respect of the types of determining events, which the Company will receive from time to time under any officers' liability insurance. The list of determining events was updated at a later date following amendment of the indemnification and exemption letter issued to officers of the Company, including controlling shareholders therein. The Company has also undertaken to release the officers therein, in advance, of any responsibility for damages due to a breach of the duty of caution towards the company, with certain restrictions.

The Company from time to time renews the validity of the Letters of Indemnification and Exemption of its officers, including the controlling shareholders thereto, and issues Letters of Indemnification and Exemption to new officers that are appointed, in accordance with the requirements of the law. Therefore, on March 25, 2007, the Company granted a Letter of Indemnification and Exemption to Mr. Moshe Baraz who began to serve as external director in the Company on December 8, 2006 (for further details see the Immediate Report on Granting Indemnification to Officers dated March 26, 2007, reference number 2007-01 -345 731, as amended on March 31, 2007, reference number 2007-01-354083 and April 15, 2007, reference number 2007-01-361646). On December 3, 2008, the Company granted a Letter of Indemnification and Exemption to Mr. Joel Sela who began to serve as external director in the Company on September 23, 2008 (for further details see Immediate Report on Granting Indemnification to Officers dated September 24, 2008, reference number 2008-01-004735). On September 22, 2011, the Company granted a Letter of Indemnification and Exemption to Ms. Edna Ramot further to her appointment as a director of the Company (for further details see Immediate Report on Granting Indemnification to Officers dated September 22, 2011, reference number 2011-01-28248). On September 4, 2014 the General Meeting of the Shareholders of the Company reaffirmed the Letters of Indemnification and Exemption of Mr. Haim Shani and Ms. Bareket Shani, as stated in section 4.15.2 above.

4.16.2 For details on the insurance of officers of the Company, see section 4.5.8 above.

March 12, 2015

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Unitronics (1989) (R"G) Ltd.

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

Zvi Livne, Board member

UNITRONICS (1989) (R"G) LTD.

PRESS RELEASE

Airport City, Israel,

March 12, 2015

*****Regulated Information*****

*****For Immediate Release*****

Corporation's Liabilities Status Report by Dates of Payment

Airport City, Israel – March 12, 2015 - Unitronics published the attached Immediate Report pursuant to the requirements of Israeli law, in connection with the requirement to report the Corporation's liabilities status by dates of payment.

About Unitronics

Unitronics (1989) (R"G) Ltd. is an Israeli company that engages, through its Products Department, in the design, development, production, marketing and sale of industrial automation products, mainly Programmable Logic Controllers ("PLCs"). PLCs are computer-based electronic products (hardware and software), used in the command and control of machines performing automatic tasks, such as production systems and automatic systems for industrial storage, retrieval and logistics. The Company also engages, through its Systems Department and/or its subsidiaries, in the design, construction and maintenance services in the framework of projects for automation, computerization and integration of computerized production and/or logistics systems, mainly automated warehouses, automated distribution centers and automated parking facilities. The Company's PLCs are distributed by over one hundred and forty distributors (and a wholly owned US subsidiary) in approximately fifty countries throughout Europe, Asia, America and Africa. The services of the Systems Department are provided to customers in Israel and also outside Israel.

This press release contains certain forward-looking statements and information relating to the Company that are based on the beliefs of the Management of the Company as well as assumptions made by and information currently available to the Management of the Company. Such statements reflect the current views of the Company with respect to future events, the outcome of which is subject to certain risks and other factors which may be outside of the Company's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein as projected, anticipated, believed, estimated, expected or intended.

Unitronics (1989) (R"G) Ltd.
(the "Company")

Re: **An Immediate Report Concerning Corporation's Liabilities Status by Dates of Payment**

Pursuant to section 36A of the Israeli Securities Law, 1968.

Reporting period: December 31th, for the year: 2014.
Detailed Corporation's liabilities status by dates of payment is as follows:

A. Debentures issued by the reporting Corporation to the public and held by the public, excluding such Debentures held by the Corporation's parent company, its controlling shareholder, companies controlled by same or companies which are controlled by the Corporation ("Solo" report) (in NIS thousands)

	Fund Payments								
	NIS Index Linked	**NIS Index Unlinked**	**Euro**	**USD**	**---**	**---**	**Other**	**Gross Interest Payment (Without Tax Deduction)**	**Total by year**
First Year	6,748	4,000						4,961	15,709
Second Year	6,748	4,000						4,457	15,205
Third Year	6,748	2,000						3,860	12,608
Fourth Year	11,067	2,000						3,263	16,330
Fifth Year and So On	22,673	28,000						7,140	57,813
Total	**53,984**	**40,000**						**23,681**	**117,665**

B. Private debentures and non banking-credit, excluding debentures or credit which was given by the Corporation's parent company, its controlling shareholder, companies controlled by same or companies which are controlled by the Corporation – based on data from the Corporation's separate financial reports ("Solo" report) (in NIS thousands)

	Fund Payments								
	NIS Index Linked	**NIS Index Unlinked**	**Euro**	**USD**	**---**	**---**	**Other**	**Gross Interest Payment (Without Tax Deduction)**	**Total by year**
First Year									
Second Year									
Third Year									
Fourth Year									
Fifth Year and So On									
Total									

C. Bank credit – from Israeli banks ("Solo" report) (in NIS thousands)

	Fund Payments								
	NIS Index Linked	**NIS Index Unlinked**	**Euro**	**USD**	**---**	**---**	**Other**	**Gross Interest Payment (Without Tax Deduction)**	**Total by year**
First Year			1,491	424				200	2,115
Second Year			830	424				161	1,415
Third Year			830	424				127	1,381
Fourth Year			394					101	495
Fifth Year and So On			2,559					309	2,868
Total			**6,104**	**1,272**				**898**	**8,274**

D. Bank credit – from banks abroad ("Solo" report) (in NIS thousands)

Fund Payments									
	NIS Index Linked	NIS Index Unlinked	Euro	USD	---	---	Other	Gross Interest Payment (Without Tax Deduction)	Total by year
First Year									
Second Year									
Third Year									
Fourth Year									
Fifth Year and So On									
Total									

E. Summary table of tables A-D, Total credit- banking, non-banking and debentures ("Solo" report) (in NIS thousands)

Fund Payments									
	NIS Index Linked	NIS Index Unlinked	Euro	USD	---	---	Other	Gross Interest Payment (Without Tax Deduction)	Total by year
First Year	6,748	4,000	1,491	424				5,161	17,824
Second Year	6,748	4,000	830	424				4,618	16,620
Third Year	6,748	2,000	830	424				3,987	13,989
Fourth Year	11,067	2,000	394					3,364	16,825
Fifth Year and So On	22,673	28,000	2,559					7,449	60,681
Total	**53,984**	**40,000**	**6,104**	**1,272**				**24,579**	**125,939**

F. External balance credit exposure ("Solo" report) (in NIS thousands)

	Fund Payments								
	NIS Index Linked	**NIS Index Unlinked**	**Euro**	**USD**	**---**	**---**	**Other**	**Gross Interest Payment (Without Tax Deduction)**	**Total by year**
First Year									
Second Year									
Third Year									
Fourth Year									
Fifth Year and So On									
Total									

G. External balance credit exposure of all consolidated companies, excluding companies which are reporting companies and excluding the reporting Corporation's data included in table F above (in NIS thousands)

	Fund Payments								
	NIS Index Linked	**NIS Index Unlinked**	**Euro**	**USD**	**---**	**---**	**Other**	**Gross Interest Payment (Without Tax Deduction)**	**Total by year**
First Year									
Second Year									
Third Year									
Fourth Year									
Fifth Year and So On									
Total									

H. Total credit balance, banks, non banks and debentures of all consolidated companies, excluding companies which are reporting companies and excluding the reporting Corporation's data included in tables A-D above (in NIS thousands)

	Fund Payments								
	NIS Index Linked	**NIS Index Unlinked**	**Euro**	**USD**	**---**	**---**	**Other**	**Gross Interest Payment (Without Tax Deduction)**	**Total by year**
First Year									
Second Year									
Third Year									
Fourth Year									
Fifth Year and So On									
Total									

1. Total credit balance provided to the reporting Corporation by its parent company or controlling shareholder and balance of debentures issued by the reporting Corporation and held by its parent company or controlling shareholder: 0.
2. Total credit balance provided to the reporting Corporation by companies controlled by its parent company or controlling shareholder which are not controlled by the reporting Corporation, and balance of debentures issued by the reporting Corporation and held by companies controlled by its parent company or controlling shareholder which are not controlled by the reporting Corporation: 0.
3. Total credit balance provided to the reporting Corporation by consolidated companies and balance of debentures issued by the reporting Corporation and held by the consolidated companies: 0.

I. (1) Cash and cash equivalents, marketable securities and short term deposits ("Solo" report) (in NIS thousands):60,204
(2) Cash and cash equivalents, marketable securities and short term deposits of all consolidated companies (in NIS thousands):66,808
(*) Pledged cash is excluded.

Respectfully,

Unitronics (1989) (R"G) Ltd.