Unitronics (1989) (R”G) LTD.

Quarterly Report as of March 31, 2007

Table of Contents

This Report contains forward-looking information within the meaning of Section 32A of the Israeli Securities Law, 5728-1968, including forecasts, estimations, assessments, expectations or other information pertaining to future events or issues, the occurrence of which is uncertain and not solely under the Company's control, if at all. This information is identified as such where it is used in this report. Although such information is based on data available to the Company as of the date of the Report, and reflects the Company's intents and estimates as of such date, the actual occurrences and/or results may vary substantially from those presented in the Report or implied therefrom as projected or anticipated since their occurrence is subject, *inter alia*, to uncertainties and other factors beyond the Company's control as set out in this Report below.

CHAPTER A – PREFACE

1. General

Company Name:	Unitronics (1989) (R"G) Ltd. (hereinafter: the "**Company**" or "**Unitronics**")
Company No.:	520044199
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2. Description of the Company and its business environment

Unitronics is engaged through its Products Department in design, development, production, marketing, and sale of industrial automation products, mainly programmable logic controllers (Programmable Logic Controllers – PLC's) (hereinafter: "**controllers**"). Controllers are computer based electronic products (hardware and software), which serve for control and supervision of machines performing automatic tasks such as manufacturing systems, automated storage systems, industrial retrieval and logistics systems. The Company is also engaged, through its Systems Department, in design, construction and maintenance services in the framework of projects for automation, computerization and integration of computerized production and/or logistic systems, mainly automatic warehouses, automated distribution centers and automated parking lots.

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

The Company operates from facilities at the "Unitronics House", which houses offices and industrial space and is, in part, leased by the Company. The Unitronics House is situated at Airport City which is adjacent to the David Ben-Gurion Airport. The offices of the Company and all its other facilities in Israel are located there.

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

3. Main Events during the Period of the Report and prior to its Publication

Winning Tender for Management of an Automated Parking Lot in the USA

According to an agreement that was signed in December 2006, between the subsidiary Unitronics Inc. and the city of Hoboken, New Jersey, USA the subsidiary company undertook the task of repairing and upgrading the automatic parking system which operates in the city by repairing the mechanical and electrical systems and replacing the control systems and the software, for a total amount of approximately $2 million (about NIS 8.4 million). According to the terms of the agreement, the payment will be made in full on completion of the project. The intention is to complete the project during the third quarter of 2007. For details considering the legal processes in the matter see the continuation of this paragraph.

Changes in the Board of Directors

The CEO of the company Mr. Haim Shani ceased, as of April 13, 2007, to serve as Chair of the Board and Mrs. Bareket Shani who serves as a Director and an Officer in the Company was appointed, at that time, to be the Chair of the Board. Mrs. Shani is Mr. Haim Shani's wife (for details see the Immediate Report published April 15, 2007).

Awarding Options

On April 12, 2007 the Board of Directors approved the private allocation of non-negotiable options to Mr. Jonathan Roman, a former employee of the Company who now serves as a consultant and provides external services to the Company. The private allocation was a "private allocation which neither material, nor exceptional" as these terms are interpreted by Article 1 of the Articles of Private Offers. On April 29, 2007 the Stock Exchange approved the listing of the shares, which will result from the exercising of these options. (For details see the Immediate Reports published on the 15th and on the 29th of April, 2007).

Buybacks of Company Shares

Beginning August 2005 the Company, from time to time, carried out buybacks of ordinary shares of the Company, during trading on the Tel Aviv Stock Exchange. As of May 7, 2007 the Company holds a total of 577,425 sharespurchased as aforementioned (of 11,676,546 ordinary shares of capital issued by the Company). As long as these shares are in possession of the Company, they are "dormant shares" as defined in the Companies Law – 5759-1999. For additional details in the matter of these purchases see the Immediate Reports which were published by the Company from time to time following these purchases, beginning August 18, 2005.

Changes in the Holdings of Holders of an Interest

On May 7, 2007 Mr. Haim Shani, the CEO of the Company and the controlling holder of it, increased his holdings following the purchase of ordinary shares of the Company in the process of trading on the Tel Aviv Stock Exchange. Mr. Shani's holdings after the change (not including the first payment of Debentures (Series 1) which subsequently occurred as described below) were: In capital – 55.32 percent, with voting rights-58.92 percent (and with full dilution after the change: in capital-35.06 percent and with voting rights-37.27 percent). (For details see the Immediate Report published on May 7, 2007). After the first payment on the Debentures (Series 1) Mr. Shani's holdings were: In capital-55.32 percent-and in voting rights-58.92 percent (and with full dilution: In capital – 37.05 percent and with voting rights 39.39 percent). (For details see the Immediate Report published on May 24, 2007).

Fourth Payment of the Non-negotiable Debentures

In February 2007 the Company made a fourth payment of principal and interest for the non-negotiable Debentures, which the Company had issued in 2001 (and whose conditions were adjusted in 2003 as detailed in paragraph 6.4.2 of the Company's prospectus of August 16, 2006). Following this payment there remained outstanding Debentures of this type, which may be converted to a total of 97,822 Company shares, according to the terms of these Debentures.

First Payment of the Debentures (Series 1)

On May 24, 2007 the Company made the first payment on the Debentures (Series 1) in accordance with the prospectus which was published on May 12, 2004. (For details see the Immediate Report published on May 24, 2007).

Bonus Payment to the CEO of the Company for 2006

On April 12, 2005 the General Meeting of the Company's shareholders approved (following approval by the Company's Auditing Committee and Board of Directors) a framework transaction pursuant to which Mr. Haim Shani would receive an annual bonus for all the calendar years beginning with the year 2005 for as long as Mr. Shani serves as CEO of the Company (hereinafter – "Future Bonuses"), at a rate of 7.5 percent of the pre tax profit of that year (cost to the Company) (for details see the Immediate Reports regarding the results of the Company's Shareholders General Meeting of shareholders dated April 12, 2005). In accordance with Company's Annual Financial Reports for the year 2006 and in light of the aforementioned, the Company paid Mr. Shani a bonus for the year 2006 in the amount of approximately NIS155 thousand in March 2007 (for details see the Immediate Report published on March 26, 2007).

Extension of the Lease from the Controlling Shareholder

Mr. Haim Shani is the controlling shareholder in a company which has granted a lease to the Company on approximately 632 square meters of office space in the building known as "Unitronics House" according to the lease agreement dated August 2004 and the amendment dated August 2005 (hereinafter – "Unitronics House" and "Lease Agreement" respectively). On March 26, 2007 the Company reported that it had chosen to exercise its option to extend the lease and to extend the period of the lease starting August 2007 for an additional 12 months.

After studies made by the Company and which were presented to the Board of Directors, the Board of Directors determined that the transaction would be on market conditions and during the normal course of business and that it was not detrimental to the Company. For additional details see the Immediate Report of March 26, 2007 regarding transactions with the controlling shareholder which do not require approval by the General Meeting of the Company's shareholders.

Decisions relating to the Outside Director of Mr. Moshe Bra'az

The Company approved an annual remuneration and remuneration for the participation of Mr. Moshe Bra'az, who was appointed as an external director of the Company according to the resolution of the General Meeting of the Company's shareholders of December 7, 2006, at a "fixed amount" as detailed in the second and third regulations of the Companies Regulations (Regulations concerning Remuneration and Expenses of an External Director). 5760-2000, and in accordance with the rating of the relevant capital of the Company (for details see the Immediate Report published on March 26, 2007).

On March 25, 2007 the Board of Directors decided, in accordance with instructions of paragraph 260 of the Companies Law, 5759-1999, to indemnify Mr. Moshe Bra'az according to the permition for indemnification as specified in the Articles of Association of the Company. The wording of the Letter

of Indemnity is identical to the wording of the Letter of Indemnity, which had been attached as Appendix "B" to the Immediate Report regarding transactions with the Controlling Shareholder dated March 27, 2006 (for details see the Immediate Report published on March 26, 2007). The awarding of the indemnification is subject to the approval of the General Meeting of Company's shareholders (for details see the Immediate Report published on April 15, 2007).

Legal Proceedings

Dispute with Robotic

As was specified in the Periodic Report for 2006, on December 28, 2006, the company Robotic Parking (hereinafter "Robotic") filed an amended suit (as a continuance of the original suit of June 2006) against the city of Hoboken, New Jersey, USA and its Mayor in relation to the automated parking system which had been built a number of years previously by Robotic. The amended suit added Unitronics and Unitronics Inc. as additional defendants for, *inter alia*, violations of patents and intellectual property rights, causing a breach of contract and defamation. According to the terms of the agreements between City Hall and Unitronics the city undertook, *inter alia*, to indemnify Unitronics for all damage caused to it following the Robotic suit. On March 23, 2007 the parties specified a plan for disclosure of documents and mutual details . As of the publication of this report, there has been no change in the proceedings since the publication of the Periodic Report for 2006 and the Company is acting according to this plan.

Dispute with IMO

As specified in the Periodic Report of 2006, during the past months discussions between the parties to this dispute have been held, discussions whose aim was to settle the dispute by compromise. The essence of the compromise: all parties are to waive all their claims, including the claim of IMO against the new Unitronics distributor in France. In light of the agreement of the parties, the Court in Israel decided, on February 25, 2007 and on March 1, 2007 to dismiss all the aforementioned claims with the consent of all parties. In parallel a request was filed in the court in France to bring the proceedings there to an end. The parties are awaiting the decision of the Court on the matter to end the aforementioned proceedings.

Dispute with Sammy Gharb

There have been no changes in these proceedings since publication of the Periodic Report in 2006 and the parties are awaiting the Court's decision on the matter of continuance of the proceedings.

Chapter B – Board of Directors Report

1. The Financial Situation

Since January 1, 2007 onwards, the Company has implemented Accounting Standard 30 in the matter of intangible assets (hereinafter Standard 30) of the Israeli Accounting Standards Board. The standard explains the actuarial handling of intangible assets and defines how to measure book value of these assets, in clearly specifying what is necessary according to the transitional instructions of the standard.

Adoption of the standard will be effected retroactively, with the exception as specified hereafter in the matter of business combinations. The standard will be implemented regarding business combinations which occurred on January 1, 2007 or subsequent to that date, as well as to a research and development project which is in progress which was purchased in the framework of joined businesses which occurred before January 1, 2007, and which complies with the definition of an intangible asset at the time of the purchase and is attributed as an expense at the time of purchase. The Company will recognize the asset, from January 1, 2007, as an on-going Research and Development Project in reference to taxes. The Standard states that an intangible asset will be recognized if, and only if, the financial forecasted future benefits that can be attributed to them will be transferred to the entity and the cost of the asset can be credibly measurable.

A Research and Development asset will be recognized on the basis of its estimated value at the time of the purchase after deducting the cumulative amortization as of the time of the purchase and up to December 31, 2006 in accordance with the useful lifetime of the asset and less deductions for losses due to the accumulated loss of value; a corresponding amount will be attributed to the surplus balance as of January 1, 2007.

As of January 1, 2007, the Company is implementing the instructions of Standard 30 in relation to development expenses made according to terms for recognizing intangible assets according to standard instructions.. For additional details regarding the Standard and the way it will be implemented see illustration 2D (4) in Chapter C (Financial Reports).

Assets

The total assets according to the consolidated balance sheets of the Company as at March 31, 2007 increased to approximately NIS 128,150 thousand compared to approximately NIS 123,502 thousand as of December 31, 2006. The increase stemmed, mainly, from an increase in clients, fixed assets items and other assets and by offsetting the decrease on the cash items, the cash equivalents and the marketable securities as specified hereafter.

In the cash items, cash equivalents and marketable securities a decrease was recorded, and totals to the amount of approximately NIS 61,306 thousand as of March 31, 2007 compared to approximately NIS 70,296 thousand as of December 31, 2006. The main decrease was a result of negative flow in the period as specified hereafter, with an offsetting of net profit from the start of 2007 as specified hereafter.

In the Clients and Accounts Receivable items an increase was recorded of from approximately NIS 15,675 thousand as of December 31, 2006 to approximately NIS 26,687 thousand as of March 31, 2007, and it is attributed mainly, to an increase in Accounts Receivable item which stems mainly from the rate of actual progress in the installation of logistical systems by the Company's Systems Department (in the regular course of the Company's business).

A decrease of approximately 11 percent was recorded in the amount of inventory from approximately NIS 13,663 thousand as of December 31, 2006 to approximately NIS 12,184 thousand as of March

31, 2007. The Company believes that constantly improving the efficiency in the processes of supplying equipment and inventory management contributes to the improvement in this item. The Company regularly keeps a stock of components, and raw materials for about 60-100 days, which is intended to meet the anticipated demands for a two-month period. In addition the Company has in stock a supply of finished products intended for filling regular orders for about 45-75 days (for additional details regarding raw materials, suppliers and inventory see Chapter A, paragraph 1.9.21.1 of the Annual Periodic Report of the Company for 2006).

In the Fixed Assets item no significant change was recorded and it remained at approximately NIS 23,101 thousand as of March 31, 2007 compared to approximately NIS 22,576 thousand as of December 31, 2006.

In the Other Assets item a significant increase was recorded amounting to approximately NIS 2,026 thousand as of March 31, 2007 compared to approximately NIS 193 thousand as of December 31, 2006. The increase is attributable to recording the development assets of the Company as a result of the implementation of Standard 30 as abovementioned. For additional information on the possible influences on this item, see the Research and Development Expenses item hereafter.

Liabilities

The total short term credit amounted to approximately NIS 11,877 thousand as of March 31, 2007, compared to approximately NIS 11,720 thousands of December 31, 2006 and is mainly attributable to current maturities of Convertible Debentures (Series 1) payable commencing May 2007, current maturities of Convertible Debenture denominated in Euro payable commencing May 2006 up until September 2008, and current maturities of long term loans. On May 24, 2007 the Company paid 25 percent of the capital at a total nominal value of Convertible Debentures (Series 1) in the amount of approximately NIS 8,750 thousand.

The Liabilities to Suppliers and Service Providers item, amounted on March 31, 2007, to approximately NIS 13,328 thousand compared to approximately NIS 12,112 thousand as of December 31, 2006. The increase stemmed from, mainly, an increase in credit from suppliers (in the normal course of the Company's business).

The Creditors and Credit balances item amounted on March 31, 2007 to NIS 13,600 thousand compared to NIS 11,444 thousand on December 31, 2006. The increase is attributable to an increase in the Accounts Payable component and an increase in the Clients Advances item (in the normal course of the Company's business).

No significant changes occurred in the amount of Long-term Liabilities as of March 31, 2007 and they amounted to NIS 66,515 thousand compared to NIS 66,796 thousand as of December 31, 2006.

No significant change was recorded in the Company’s operating capital and it amounted to approximately NIS 63,836 thousand as of March 31, 2007 compared to approximately NIS 65,118 thousand as of December 31, 2006.

The Company’s equity capital as of March 31, 2007 increased to approximately NIS 22,830 thousand, compared to approximately NIS 21,430 as of December 31, 2006. This increase arose, mainly, from the Company’s Net Profit during the reporting period.

2. Operating Results

Revenue

The Company's revenue for the quarter ending March 31, 2007, amounted to approximately NIS 27,632 thousand compared to approximately NIS 20,740 thousand for the same quarter in 2006, an increase of 33 percent, representing a continuous revenue growth for twenty-two consecutive quarters.

The revenue from the Products item for the quarter ending on March 31, 2007 amounted to NIS 13,060 thousand, an increase of approximately 2 percent compared to the same quarter in 2006. The moderate increase in revenue in the Products item, in the Company's estimation, stems mainly from the strengthening of the Shekel in relation to the currencies of the main sales (Dollar and Euro) during the reporting period.

The revenue from the Systems item for the quarter ending on March 31, 2007 amounted to approximately NIS 14,421 thousand, a growth of 86 percent compared to the parallel quarter in 2006. The fluctuations between quarters in this item chiefly arises from the actual rate of progress in the installation of the Logical Systems by the Company's Systems Department (in the normal course of the Company's business) and the commencement of Company activities in the development of new markets in the sector outside Israel (mainly in the United States in the initial stage).

Revenues in the Products item for the quarter ending March 31, 2007 constituted approximately 47.3 percent of the total Company revenue for this quarter while the revenue in the Systems item for the same period constituted approximately 52.2 percent of the revenue (approximately 0.5 percent derived from other revenues.) In the parallel quarter in 2006, it constituted approximately 62 percent of the total Company revenue for that quarter while the revenue from the Systems item for the same period constituted approximately 37 percent of the total revenue. In the Yearly Summary for 2006 the revenue from Products constituted approximately 57 percent of the revenue while the revenue from Systems constituted approximately 43 percent of the revenue.

Cost of Revenue and Gross Profit

The total gross profit for the quarter ending March 31, 2007 amounted to approximately NIS 8,203 thousand (about 30 percent of the revenue for the period) compared to approximately NIS 7,939 thousand in the same period in 2006 (approximately 38 percent of the revenue for the period).

The rate of the gross profit in the Products item is higher than the rate of profit in Systems. It is the opinion of the Company that the previously described changes in the composition of the revenue in the different activity sectors (in the context of normal business activity of the Company) as well as the strengthening of the Shekel in comparison to the main currencies of sales (Dollar and Euro) during the last quarters, is the main reason for these changes in the calculation of the gross profit.

Net Costs for Research and Development

Net costs for Development for the quarter ending March 31, 2007 amounted to approximately NIS 465 thousand compared to approximately NIS 1,949 thousand in the same quarter in 2006. The difference stemmed mainly from the implementation of Standard 30, which began in January 2007 as previously explained. As a result of the implementation of the standard an intangible asset was recognized in the reported period relating to development costs at a sum of approximately NIS 1,860 thousands (Euro 336 thousands) (unaudited), which meats the terms for recognition as an intangible asset.

Costs for Development for the reporting quarter reflect continuing activity in developing technologies and new products which are needed to support the continuing growth of the Company, as well as the need to adapt the Company's products to changes in certain standards in different areas of the world (for details see paragraph 1.9.1.2 of the Periodic Report for 2006). For the reporting period and thereafter, we will continue to recruit manpower for the development teams, and accordingly the Company estimates an expected growth in this item as well as in the Other Property item (as a result of registration of development assets) in the coming quarters[1]

Sales and Marketing Expenses

Sales and Marketing expenses for the quarter ending on March 31, 2007 amounted to approximately NIS 3,092 thousand (about 11 percent of revenues), compared to approximately NIS 2,774 thousand (about 13 percent of revenues) in the same period in 2006.

In the reporting period an increase was recorded in the costs of Sales and Marketing in comparison to the previous quarter, which arose from the need to continuously support growth, according to the Company's policies in this area, and they were caused, *inter alia,* by activities in developing new markets in the area of Systems outside Israel, the recruitment of staff for the marketing teams, visiting and participating in trade shows and other marketing activities around the world. The Company estimates that there will be a growth in this item in the coming quarters commensurate with a relative growth in revenue.[2]

General and Administrative Expenses

In the item General and Administrative Expenses no significant changes were recorded for the quarter ending March 31, 2007 and they amounted to approximately NIS 1,742 thousand compared to approximately NIS 1,516 thousand in the same quarter in 2006. The main differences resulted from an increase in costs for professional advice needed by the Company.

The General and Administrative Expenses for the reporting period reflect, in the Company's assessment, costs necessitated by the growing management activities of the Company.

Operating Profits

An increase of approximately 71 percent was recorded in operating profits for the quarter ending March 31, 2007 which amounted to approximately NIS 2,904 thousand compared to an operating profit of approximately NIS 1,698 thousand in the parallel quarter in 2006.

The increase in operating profit in the in the quarter reported mainly arose from an increase in

[1] The information regarding anticipated growth in the costs in the Research and Development item is forecast information. The main data used as a basis for this information are Research and Development programs of the Company, the stage of the development of the technology in the course of development by the Company at the date of this report and the need for significant continuing investments in the costs of Research and Development in order to realize Company plans. The main factors which could contribute to these developments not being fulfilled are changes in the Company's development programs for reasons that the Company is unable to control (such as market needs and consumer preferences, competitors' developments, prices of raw material and services which the Company requires), the absence of a budget to finance costs which will be needed to continue development in general or in a scope required by the Company and possible technological difficulties in all that is connected with completing the developmental stages according to this programs.

[2] The information in the matter of expected growth in the Costs of the Sales and Marketing item is forecast information. The main data used as a basis for this information as to the company's marketing activities including planned visits to trade shows and training for distributors, and the need for continuing significant investment in the marketing expenses including expenses for registering intellectual property rights including trademarks and setting up internet sites. The main factors which can prevent this plans from being fulfilled are changes in the Company's marketing plans for reasons over which the Company has no control (such as changes in Company's distributors, changes in the Company's main markets and/or in markets where the Company has no activities, marketing activities of competitors).

Company revenues and a decrease in the Development item as a result of the implementation of Standard 30, offsetting the rate decrease in gross profit as previously explained.

Net Financing Costs

Financing costs for the quarter ending on March 31,2007 amounted to approximately NIS 1,504 thousand compared to approximately NIS 1,070 thousand in the same quarter in 2006.

The chief increase in this item in comparison with the parallel period stems from an increase in the interest component on Company debentures, mainly Debentures (Series 2) which were issued in August 2006, as well as from a decrease in the income from interest component from marketable securities and by offsetting the decrease in financing costs for long term credit which stemmed from a decrease in the exchange rate of the Dollar and the Euro in relation to the Shekel during the reporting period.

From May 2004 the Company's exposure to differences in the exchange rate of the Shekel in relation to the Dollar increased, following the issuance of Convertible Debentures (Series 1) which according to the Israeli prospectus, were linked to the Dollar rate, and which Debenture funds are payable from May 2007. In addition to this exposure to fluctuations in the exchange rate, there is an interest component as a result of this issuance and accordingly the Company estimates that this item will be influenced by these factors in the coming quarters.

From August 2006 the Company's exposure to changes in the Consumer Price Index increased, following the issuance of Debentures (Series 2), which according to the Israeli prospectus are linked to the Consumer Price Index. At the same time as this exposure to fluctuations in the CPI, there is an interest component as a result of this issuance and accordingly the Company estimates that this item will be influenced by these factors in the coming quarters.

Net Profit

In the reported quarter the Company showed a net profit of approximately NIS 1,400 thousand (about 5 percent of revenues), compared to a net profit of approximately NIS 601 thousand in the parallel quarter in 2006 (about 3 percent of revenues).

The Company believes that the continuous growth in revenues, and a reduction in the item of Development Expenses as a result of the implementation of Standard 30, offset by the necessary increase, in its estimation, in the operating expenses for the benefit of continued growth in its operation on the other hand – are the main factors for the increase in net profit during the reporting period. As aforementioned it is the Company's estimation that there is the possibility of increase in certain expense items in the coming quarters due to the need to support continuous growth.

Analysis of Business Expenses according to Sectors of Activity

As aforementioned the main commercial activities of the Company are conducted by two of the business departments, the Products Department and the Systems Department. Details of the results of the various sectors appear below.

Products Item

The results for the Products Item for the reporting period amounted to approximately NIS 3,487 thousand, compared to NIS 4,307 thousand for the parallel period in 2006. The decrease in results for this item for the reporting period arises, in the assessment of the Company, from the profit margins on a number of transactions in this item (during the normal course of the Company business) and also from the strengthening of the Shekel in relation to the main sales currencies (Dollar and Euro) in the last quarters.

Systems Item

Results in the Systems item for the reporting period amounted to approximately NIS 1,818 thousand, compared to approximately NIS 892 thousand for the parallel quarter in 2006. It is the Company's view that the growth in the results of the item for the reporting period spring from an increase in revenues in this item for the reporting period as explained above.

3. Liquidity and Sources of Financing

Cash balance, cash equivalents and marketable securities of the Company on March 31, 2007, amounted to approximately NIS 61,306 thousand compared to approximately NIS 70,296 thousand as of December 31, 2006. This decrease stems mainly from the negative cash flow during the reporting period as will be explained below.

Cash flow from current activities during the quarter ending March 31, 2007 amounted to a negative flow of approximately NIS 5,363 thousand, which came mainly from an increase in the Client item and Accounts Receivable offset by an increase in the Credit item and Credit balance which were also offset by the Net Profit for the period as explained above.

The cash flow from investment activities in the quarter amounted, on March 31, 2007, to a negative flow in the amount of NIS 26,915 thousand due mainly to the purchase of marketable securities and the fixed assets during the reporting quarter as well as investments recorded as Development assets as a result of the implementation of Standard 30 as previously explained.

The cash flow from the Financing Activities for the quarter as of March 31, 2007 amounted to a negative cash flow in the amount of NIS 676 thousand. The negative flow derived mainly from the repayment of Convertible Debentures, which were issued in February 2001 with a nominal value in Euros.

On March 31, 2007 the total credit lines available to the Company for on-going activities was approximately NIS 14.9 million. On March 31, 2007 a total amount of approximately NIS 5.5 million was used from this credit facility mainly for guarantees to secure the Company obligations in projects carried out by the Systems Department.

4. Qualitative Report Re: Exposure to Market Risks and its Management Methods

The persons in the Company responsible for the management of market risks are the CEO of the Company and the Chief Financial Officer.

Exposure to Fluctuation in the Exchange Rate

The Company is exposed to fluctuations in the exchange rate, mainly changes in the US Dollar rate in relation to the Shekel and to the Euro for the following reasons:

The Company is exposed to fluctuations in the exchange rate of the Dollar in relation to the Shekel and to the Euro for the following reasons:

In May 2004 the Company issued Convertible Debentures (Series 1) according to the 2004 prospectus. The principal and interest of the debentures is linked to the representative rate of the US Dollar; the principal of the debentures was repayable from May 2007. Until they are fully converted or they are fully paid out in May 2010, the Company is exposed to fluctuations in the Dollar rate in relation to the Shekel.

In February 2001 the Company issued Convertible Debentures, which were issued and nominated in Euros. In December 2003, 75 percent of the principal was converted to Company shares. Up until this conversion or full payment, which began in May 2006 until September 2008, the Company is exposed to changes in the rate of exchange of the Euro in relation to the Shekel. The Company has paid, up until May 7, 2007, 5 of 10 repayments of the principal and interest for this debenture.

Company assets are exposed to changes in the rate of exchange including, mainly, on deposits in various currencies (mainly in Euros and US Dollars), liabilities to clients nominated in different currencies in accordance with the client, which do not bear interest, and foreign currency linked negotiable securities.

The Current Liabilities item is exposed to changes in the rate of exchange including the current liabilities on short term loans, which are mostly linked to foreign currency as well as liabilities to suppliers in foreign currency, mainly in Euros. In the Long-Term Liabilities item include liabilities for financing plans for the purchase of rights to the Company's Airport City offices of which approximately 50 percent are nominated in US Dollars and approximately 50 percent in Euros.

Most of the Company's activities are conducted in foreign currency or in Shekels linked to a foreign currency. In the Products item, most of the revenue is nominated in US Dollars or is linked to the US Dollar exchange rate, with the exception of revenues resulting from sales in Europe, which are nominated in Euros. In the Systems item, most of the Company's revenues derive from sales nominated in Euros or linked to the Euro exchange rate.

Raw materials that are required for the manufacture of the Company's products include mainly electronic or various mechanical components, with the majority of those prices being quoted in foreign currency – mainly the Dollar or the Euro.

Exposure to Fluctuations in the Consumer Price Index

In August 2006, the Company issued Debentures (Series 2). These debentures were linked to the Consumer Price Index. Following this, beginning in August 2006 the exposure of the Company to fluctuations in the Consumer Price Index increased. Developments and economic changes in the Israeli economy including depreciation and inflation can cause fluctuations in the Consumer Price Index and thus can influence the revenues/financing expenses of the Company.

Risks in relation to Negotiable Securities

Part of the financial resources of the Company is invested in negotiable securities. Exceptional developments in the capital markets in Israel and in the world can cause fluctuation in the rate of negotiable securities on the Stock Exchange and thus influence the revenues/financing expenses of the Company.

Interest Risks

The Company has various loans relating to the purchase of the rights to use facilities of the Company in Airport City. Convertible Debentures (Series 1) and Debentures (Series 2) were issued by the Company in the according to prospectuses 2004 and 2006 and in the context of other interest - credit bearing facilities that are exposed to possible fluctuations in the PRIME and/or LIBOR interest rates.

The Company's Market Risk Management Policy

The Company's policy is to endeavor to try and decrease, in every contract, the exposure to fluctuations in the rate of exchange by matching the currency of the revenue to the currency of the main expenses. In the Systems item, the Company usually links the payment terms (dates/foreign currency) of the various clients to the payment terms of the sub-contractors.

Company policy as to the distribution of investments is affected with the intention of reducing Company exposure to liabilities nominated in Dollars (mainly payments of principal and interest on Convertible Debentures (Series 1) which are linked to the Dollar).

For this purpose the Company selected, after consulting with professionals in the capital market a short time after issue of the 2004 prospectus (and receiving money from the issuance), a number of possibilities for alternative investments, *inter alia*, the use of Dollar-linked deposits, or derivatives and other financial instruments as well as Shekel-linked investments.

It is the view of the Company that as its liabilities from Convertible Debentures (Series 1) which were issued pursuant to the 2004 prospectus are linked to the Dollar rate which will not be less than the base rate in the amount of NIS 4.59 to the Dollar, the use of deposits linked only to the Dollar cannot guarantee the Company's liabilities in relation to Convertible Debentures (Series 1), especially in the instance of a drop in the Dollar rate below the base rate mentioned above. On May 24, 2007 the Company paid 25 percent of principal of the total nominal value of the Convertible Debentures (Series 1) in the amount of NIS 8,750 thousand at a base rate of, as aforesaid, NIS 4.59 to the Dollar (while at the same time the representative rate of the Dollar on the payment date was only approximately NIS 3.9910 to the Dollar).

The use of derivatives and other financial instruments in insure against fluctuations in the Dollar exchange rate for the purpose of stabilizing the Company's liabilities due to the Convertible Debentures (Series 1), was found by the Company to not be worthwhile due to the high costs involved.

In paying attention to the aforesaid, and to the fact that most of the Company's revenues are in foreign currency, the Company elected, after raising funds in 2004, to divide approximately 60 percent of its investments among Dollar linked to the Dollar (and in this way being protected relatively from increases in the exchange rate of the Dollar) and approximately 40 percent of its investments in Shekel tracks which at that time were yielding higher returns, and thus awarded itself relative protection against decreases in the Dollar exchange rate to a point below the base rate.

Following the raising of capital in August 2006 and issuance of Debentures (Series 2) which are linked to the Consumer Price Index, the Investment Committee of the Company decided to invest the money raised from this issuance so that 35 percent of its investment would be invested in tracks linked to the Dollar (and thus offering relative protection to its exposure to increases in the Dollar exchange rate) and approximately 65 percent of its investments in Shekel tracks which are linked to the Consumer Price Index (and thus offering relative protection to its exposure to increases in the CPI).

Beyond the activities of the Company's Investment Committee as explained above, the market risk management and protective measures taken during the year of the report are presented to the Board of Directors quarterly in the context of discussions pertaining to the periodic reports.

Sensitivity Tests of Financial Instruments as of March 31, 2007

The Company conducted, as of the balance sheet date, 4 sensitivity tests to changes within a range of 5% and 10% in market factors.

The market factor tests were based on the model specified.

1) Table listing changes to fair value of financial instruments sensitive to changes in Dollar exchange rate

	Profit (loss) due to change, NIS in thousands		NIS in thousands	Profit (loss) due to change, NIS in thousands	
	10%+ NIS 4.57 per $	5%+ NIS 4.36 per $	Fair Value NIS 4.155 per $	-5% NIS 3.95 per $	-10% NIS 3.74 per $
Cash and cash equivalents	176	88	1,764	-88	-176
Negotiable Securities	882	441	8,823	-441	-882
Accounts Receivable	703	352	7,034	-352	-703
Short term credit and current maturities of long-term liabilities (**)	-45	-23	-9,203	23	45
Accounts payable - trade	-28	-14	-278	14	28
Accounts payable - other	-21	-11	-213	11	21
Long-term loans	-442	-221	-4,420	221	442
Convertible bonds (**)	-	-	-23,834	-	-
Total	1,226	613	-20,327	-613	-1,226

* For current maturities of convertible bonds issued at minimal exchange rate of NIS 4.59 per $
** The convertible bonds were issued at minimal exchange rate of NIS 4.59 per $

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

	Profit (loss) due to change, NIS in thousand		NIS in thousands	Profit (loss) due to change, NIS in thousand	
	10%+ NIS 6.09 per €	5%+ NIS 5.81 per €	Fair Value NIS 5.534 per €	-5% NIS 5.26 per €	-10% NIS 4.98 per €
Cash and cash equivalents	179	90	1,791	-90	-179
Accounts Receivable	283	141	2,825	-141	-283
Short term credit and current maturities of long-term liabilities	-255	-127	-2,546	127	255
Accounts payable - trade	-189	-95	-1,893	95	189
Long-term loans	-498	-249	-4,979	249	498
Convertible bonds	-128	-64	-1,278	64	128
Total	-608	-304	-6,080	304	608

3) Table listing changes to fair value of financial instruments sensitive to changes in Consumer Price Index

	Profit (loss) due to change, NIS in thousand		NIS in thousands	Profit (loss) due to change, NIS in thousand	
	10%+ 202.87 points	5%+ 193.65 points	Fair Value 184.43 points	-5% 175.20 points	-10% 165.98 points
Negotiable Securities	3,350	1,675	33,497	-1,675	-3,350
Accounts Payable	32	16	315	-16	-32
Short term credit and current maturities of long-term liabilities	-13	-6	-128	6	13
Long-term loans	-20	-10	-200	1	20
Bonds (***)	-2,359	-887	-30,042	-	-
Total	989	-788	3,442	-1,674	-3,348

*** Bonds issued based on base CPI of 188.1 points (1993 Average)

4) Table listing changes to fair value of financial instruments sensitive to changes in rates of convertible securities

	Profit (loss) due to change, NIS in thousands		NIS thousand	Profit (loss) due to change, NIS in thousands	
	10%+	5%+	Fair Value	-5%	-10%
Local - Government	2,439	1,220	24,393	-1,220	-2,439
Local - Corporate	2,554	1,277	25,537	-1,277	-2,554
Overseas - Corporate	442	221	4,424	-221	-442
Total	5,435	2,718	54,354	-2,718	-5,435

Report on the Consolidated Linkage

	As of March 31, 2007						
	Israeli Currency		Foreign Currency				
	Not Linked	Linked to the Consumer Price Index	In EURO	In US Dollars	Other Currencies	Non-monetary balances	TOTAL
	Thousands of New Shekels						
Assets							
Cash and cash equivalents	3,397		1,791	1,764	-	-	6,952
Marketable securities	12,034	33,497	-	8,823	-	-	54,354
Accounts Receivable-Trade	16,828	-	2,825	7,034	-	-	26,687
Accounts Receivable-Other	1,077	315	-	-	-	320	1,712
Inventory	-	-	-	-	-	12,184	12,184
Inventory/ Work in Progress	-	-	-	-	-	752	752
Long-term deposits	-	-	-	-	-	382	382
Fixed Capital, Net	-	-	-	-	-	23,101	23,101
Other Property and Deferred Expenses, Net	-	-	-	-	-	2,026	2,026
Total Assets	33,336	33,812	4,616	17,621	-	38,765	128,150
Liabilities							
Short-term credit and current maturities on long-term loans	-	128	2,546	9,203	-	-	11,877
Suppliers and Service Providers	11,114	-	1,893	278	43	-	13,328
Accounts Payable	12,633	-	-	213	-	754	13,600
Long term loans	-	200	4,979	4,420	-	-	9,599
Convertible Debentures	-	-	1,278	23,834	-	-	25,112
Debentures	-	30,042	-	-	-	-	30,042
Accrued Severance Pay, Net	1,762	-	-	-	-	-	1,762
Deferred taxes	-	-	-	-	-	-	-
Total Liabilities	25,509	30,370	10,696	37,948	43	754	105,320
Net Balance	7,827	3,442	(6,080)	(20,327)	(43)	38,011	22,830

Haim Shani
CEO and Director

Zvi Livne
Director

Date: May 27, 2006

UNITRONICS (1989) (R''G) LTD.

Financial Statements
As at March 31,2007

(Unaudited)

Unitronics (1989) (R"G) Ltd.

Financial Statements

As at March 31, 2007

(unaudited)

Table of contents

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

16 Aba Hillel Silver St. Ramat - Gan 52506 Israel Tel: 03-6123939 Fax: 03-6125030
24 Kanfey Nesharim St. P.O.B. 34356 Jerusalem 91343 Israel Tel: 02-6541206 Fax: 02-6541207 E-mail: office@ahcpa.co.il

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

Re: **Review of the Interim Financial Statements**

At your request, we have reviewed the interim consolidated balance sheet of Unitronics (1989) (R"G) Ltd. as at March 31, 2007, and the related interim consolidated statements of operations, changes in shareholders' equity and cash flows for the three months then ended.

Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included reading the above mentioned interim consolidated financial statements, reading minutes of meetings of the shareholders and of the board of directors and its committees, and making inquiries of persons responsible for financial and accounting matters.

We did not review the Interim Financial Statements of a subsidiary, which were reviewed by other auditors. We have been furnished with reports of other auditors in respect of the review of the Interim Financial Statements of the subsidiary whose assets as of March 31, 2007 represent approximately 6% of the total assets included in the Consolidated Interim Balance Sheet and whose income for the three month period ended March 31, 2007 represents approximately 20% of the total income included in the Consolidated Interim Statement of Operations.

Since the review performed is limited in scope and does not constitute an examination in accordance with acceptable auditing standards, we do not give an opinion on the above Interim Financial Statements.

Based on our review and the reports of other auditors, we are not aware of any material modifications that should be made to the interim consolidated financial statements in order for them to be in conformity with generally accepted accounting principles in Israel and with chapter D to the Securities Regulations (Periodic and Immediate Reports) - 1970.

Amit, Halfon
Certified Public Accountants (Israel)

May 27, 2007

Unitronics (1989) (R"G) Ltd. Consolidated Balance Sheets	*March 31, 2007*	*March 31, 2007*	*March 31, 2006*	*December 31, 2006*
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro (1)	**Reported NIS**		
Cash and cash equivalents	1,256	6,952	15,862	39,906
Restricted cash	-	-	2,300	-
Marketable securities	9,821	54,354	34,393	30,390
Accounts receivable -				
Trade	4,822	26,687	10,760	15,675
Other	309	1,712	2,058	566
Inventory	2,202	12,184	13,814	13,663
Inventory - work in progress	136	752	-	194
Current assets	*18,546*	*102,641*	*79,187*	100,394
Long-term deposits	*69*	*382*	*199*	*339*
Property and equipment	*4,174*	*23,101*	*22,457*	*22,576*
Other assets	*366*	*2,026*	*497*	*193*
Total assets	***23,155***	***128,150***	***102,340***	***123,502***
Credit from banks and others	2,146	11,877	1,787	11,720
Accounts payable -				
Trade	2,408	13,328	19,064	12,112
Other	2,457	13,600	11,744	11,444
Current liabilities	*7,011*	*38,805*	*32,595*	35,276
Long-term debt	1,734	9,599	11,419	9,978
Convertible bonds	4,537	25,112	35,028	25,331
Bonds	5,429	30,042	-	29,859
Accrued severance pay, net	319	1,762	1,591	1,628
Deferred taxes	-	-	273	-
Long-term liabilities	*12,019*	*66,515*	*48,311*	66,796
Shareholders' equity	*4,125*	*22,830*	*21,434*	21,430
Total liabilities and shareholders' equity	***23,155***	***128,150***	***102,340***	***123,502***

Bareket Shani	Haim Shani	Tzvi Livne	Yair Itscovich
Chairman of the Board of Directors and Deputy C.E.O.	*Chief Executive Officer and Director*	*Director*	*Chief Financial Officer*

Approved: May 27, 2007.

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Operations	*For the three month period ended March 31,*	*For the three month period ended March 31,*		*or the year ended December 31,*
	2007	*2007*	*2006*	*2006*
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro (1)	**Reported NIS**		
Revenues	4,993	27,632	20,740	94,781
Cost of revenues	3,511	19,429	12,803	62,176
Gross profit	*1,482*	*8,203*	*7,937*	*32,605*
Development expenses, net	84	465	1,949	8,521
Selling & marketing expenses	559	3,092	2,774	10,970
General & administrative expenses	314	1,742	1,516	6,102
Operating profit	*525*	*2,904*	*1,698*	*7,012*
Financing expenses, net	272	1,504	1,070	4,827
Other income	-	-	-	*23*
Profit before taxes on income	*253*	*1,400*	*628*	*2,208*
Taxes on income	-	-	27	85
Profit for the period	*253*	*1,400*	*601*	*2,123*
Profit per ordinary share NIS 0.02 par value	0.022	0.122	0.052	0.185

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

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

	Share capital	Capital reserves	Share premium	Receipts on account of warrants and conversion option	Company shares held by the company	Accumulated Loss	Total
				Reported NIS in thousands			
Balance at January 1, 2006 (audited)	352	-	48,442	676	(574)	(28,231)	20,665
Purchase of company shares by the company	-	-	-	-	(2,066)	-	(2,066)
Separation of conversion option from convertible bonds	-	-	-	235	-	-	235
Benefit arising from warrants granted	-	11	-	-	-	-	11
Receipts on account of warrants	-	-	-	462	-	-	462
Profit for the year	-	-	-	-	-	2,123	2,123
Balance at December 31, 2006 (audited)	352	11	48,442	1,373	(2,640)	(26,108)	21,430
Profit for the period	-	-	-	-	-	1,400	1,400
Balance at March 31, 2007 (unaudited)	352	11	48,442	1,373	(2,640)	(24,708)	22,830
Balance at January 1, 2006 (audited)	352	-	48,442	676	(574)	(28,231)	20,665
Purchase of company shares by the company	-	-	-	-	(67)	-	(67)
Separation of conversion option from convertible bonds	-	-	-	235	-	-	235
Profit for the period	-	-	-	-	-	601	601
Balance at March 31, 2006 (unaudited)	352	-	48,442	911	(641)	(27,630)	21,434
				Convenience translation into Euro in thousands (unaudited) (1)			
Balance at January 1, 2007	63	2	8,753	248	(477)	(4,717)	3,872
Profit for the period	-	-	-	-	-	253	253
Balance at March 31, 2007	63	2	8,753	248	(477)	(4,464)	4,125

(1) See Note 2D.

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Cash Flows	*For the three month period ended March 31,*	*For the three month period ended March 31,*		*or the year ended December 31,*
	2007	*2007*	*2006*	*2006*
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro (1)	**Reported NIS**		
Profit for the period	253	1,400	601	2,123
Depreciation and amortization	196	1,085	772	3,610
Profit (loss) from marketable securities, net	4	23	(666)	867
Benefit arising from warrants granted	-	-	-	11
Capital gain	-	-	-	(23)
Increase in accrued severance pay, net	24	134	245	282
Deferred taxes, net	-	-	21	85
Exchange rate changes of long-term debt and convertible bonds	(25)	(140)	932	(352)
Increase in accounts receivable - trade	(1,990)	(11,012)	(657)	(5,572)
Decrease (increase) in accounts receivable - other	(207)	(1,146)	(1,029)	463
Decrease (increase) in inventory	267	1,479	(4,363)	(4,212)
Decrease (increase) in inventory - work in progress	(101)	(558)	-	(194)
Increase (decrease) in accounts payable - trade	220	1,216	5,918	(1,034)
Increase (decrease) in accounts payable - other	390	2,156	(561)	(861)
Cash flows provided by operating activities	*(969)*	*(5,363)*	*1,213*	*(4,807)*
Investment in marketable securities, net	(4,334)	(23,987)	(364)	2,106
Change in restricted cash	-	-	-	2,300
Sale of equipment	-	-	-	48
Purchase of property and equipment	(185)	(1,025)	(392)	(1,865)
Investment in long-term deposits	(14)	(78)	-	(176)
Repayment of long-term deposits	6	35	2	38
Investment in other assets	(336)	(1,860)	(38)	(156)
Cash flows used in investing activities	*(4,863)*	*(26,915)*	*(792)*	2,295
Repayment of long-term loans from banks	(50)	(276)	-	-
Repayment of long-term loans from others	-	-	(35)	(125)
Repayment of convertible bonds	(72)	(400)	-	(1,000)
Short-term credit from banks, net	-	-	1	(1)
Purchase of company shares by the company	-	-	(67)	(2,066)
Receipts on account of warrants	-	-	-	462
Issue of bonds	-	-	-	29,606
Cash flows used in financing activities	*(122)*	*(676)*	*(101)*	*26,876*
Increase (decrease) in cash and cash equivalents	*(5,954)*	*(32,954)*	*320*	24,364
Cash and cash equivalents at beginning of period	7,210	39,906	15,542	15,542
Cash and cash equivalents at end of period	*1,256*	*6,952*	*15,862*	*39,906*

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Cash Flows	*For the three month period ended March 31,*	*For the three month period ended March 31,*		*or the year ended December 31,*
	2007	*2007*	*2006*	*2006*
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro (1)	**Reported NIS**		
Appendix A - Non cash transactions				
Payables related to property and equipment	-	-	152	-

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

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

Note 1 - General

These financial statements have been prepared in a condensed format as at March 31, 2007, and for the three months then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as at December 31, 2006 and for the year then ended.

Note 2 - Significant Accounting Policies

A. The interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in Accounting Standard No. 14 of the Israel Accounting Standards Board.

The significant accounting policies and methods of computation followed in the preparation of the interim financial statements are identical to those followed in the preparation of the latest annual financial statements, except as explained in Note E.

B. The company prepares its financial statements according to chapter D to the Securities Regulations (Periodic and Immediate Reports) - 1970.

C. 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**
March 31, 2007	184.43	5.5343	4.155
March 31, 2006	186.12	5.6619	4.665
December 31, 2006	184.87	5.5643	4.225
Change during the period	**%**	**%**	**%**
March 2007 (three months)	(0.24)	(0.54)	(1.66)
March 2006 (three months)	0.58	3.95	1.35
December 2006 (12 months)	(0.10)	2.16	(8.21)

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

D. Convenience translation in EURO

For the convenience of the reader, the reported NIS amounts for the last reported period have been translated in EURO by dividing each reported NIS amount by the representative rate of exchange of the EURO as at March 31, 2007 (EURO 1 = NIS 5.5343).

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

E. Initial application of new Accounting Standards

1. Accounting standard No. 26 - "Inventories"

Since January 1, 2007 the company implements Accounting Standard No. 26 of the Israel Accounting Standards Board - "Inventories" ("the Standard"), which prescribes principles of recognition and measurement of inventories.

The initial application of the new Standard had no material effect on the interim consolidated financial statements.

Note 2 - Significant Accounting Policies (cont'd)

E. Initial application of new Accounting Standards (cont'd)

2. Accounting standards No. 27 - "Fixed Assets" and No. 28 - amendment of the transitional orders in Accounting standard No. 27 - "Fixed Assets"

Since January 1, 2007 the company implements Accounting Standards No. 27 - "Fixed Assets" and No. 28 - amendment of the transitional orders in Accounting standard No. 27 - "Fixed Assets" ("the standards"), which prescribes the accounting treatment of fixed assets in the financial statements.

The initial application of the new Standard had no material effect on the interim consolidated financial statements.

3. Accounting Standard No. 23 - "Accounting treatment of transactions between an entity and a controlling shareholder in it"

Since January 1, 2007 the company implements Accounting Standard No. 23 of the Israel Accounting Standards Board - “Accounting treatment of transactions between an entity and controlling shareholder in it” (“the Standard”).

The Standard determines the accounting treatment of transactions between an entity and a controlling shareholder in it. The standard is applicable to transactions, among others, of assets transferring, receiving liabilities, compensation and loans between an entity and a controlling shareholder in it and between companies under the same control which where done after January 1, 2007 and loan received of given from controlling shareholder before January 1, 2007.

The standard is not applicable to transaction of a business combination under the same control.

4. Accounting Standard No. 30 - "Intangible Assets"

Since January 1, 2007 the company implements Accounting Standard No. 30 of the Israel Accounting Standards Board - “Intangible Assets” (“the Standard”).

The Standard sets forth the accounting treatment of intangible assets and defines how to measure the book value of these assets, while detailing the disclosure required in accordance with the transitory provisions of the Standard. Adoption of the Standard will be done retroactively, apart from the following details regarding business combinations. The Standard will be applied regarding business combinations which occurred on January 1, 2007 or thereafter; while regarding the Research & Development Project in process, which was purchased in the framework of the business combination, which occurred prior January 1, 2007 and meets the definition of an intangible asset on the date of acquisition and was posted as an expense on the acquisition date, the Company will recognize it, on January 1, 2007, as a Research & Development Project asset in progress while relating the relevant taxes.
The Standard stipulates that an intangible asset will be recognized if, and only if, it is expected that the future economic forecasted benefits, which can be related to the asset, will flow to the entity and the cost of the asset can be reliably measured.
A Research & Development asset will be recognized according to the amount estimated on the date of the acquisition less amortization which would have accumulated had it been amortized from the date of the acquisition until December 31, 2006, according to the useful life of the asset, and less losses from any impairment in value accumulated; the adjusted amount will be posted to retained earnings on January 1, 2007.

As a result of the implementation of the standard an intangible asset was recognized in the reported period relating to development costs at a sum of approximately NIS 1,860 thousands (Euro 336 thousands) (unaudited), which meets the terms for recognition as an intangible asset.

Note 2 - Significant Accounting Policies (cont'd)

F. Disclosure of the effects of new Accounting Standards prior to their adoption

Accounting Standard No. 29 - "Adoption of International Financial Reporting Standards (IFRS)"

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29 -"Adoption of International Financial Reporting Standards (IFRS)" ("the Standard").

International Financial Reporting Standards comprise standards and interpretations adopted by the International Accounting Standards Board, and include:

a) International Financial Reporting Standards (IFRS)
b) International Accounting Standards (IAS)
c) Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by its predecessor, the Standing Interpretations Committee (SIC).

Pursuant to the Standard, companies that are subject to the provisions of the Securities Law, 1968, and that are required to report according to the regulations published thereunder, will be required to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008. These companies, as well as other companies, may adopt IFRS early and prepare their financial statements in accordance with IFRS starting with financial statements that are issued subsequent to July 31, 2006.

For transition purposes, companies that prepare their financial statements in accordance with IFRS will be required to adopt the provisions of IFRS 1, "First-time Adoption of IFRS".

A company that adopts IFRS commencing from January 1, 2008, and that has elected to include comparative data for only one year (2007) will be required to prepare an opening balance sheet as of January 1, 2007 ("Opening IFRS Balance Sheet"). The Opening IFRS Balance Sheet will require the following:

- Recognition of all assets and liabilities whose recognition is required by IFRS.
- De-recognition of assets and liabilities if IFRS do not permit such recognition.
- Classification of assets, liabilities and components of equity according to IFRS.
- Application of IFRS in the measurement of all recognized assets and liabilities.

In order to ease first-time adoption, a number of exemptions from IFRS have been granted in respect of the Opening IFRS Balance Sheet, which exemptions may be elected, in whole or in part. Exceptions have also been established which prohibit retrospective application of certain aspects of IFRS.

According to the Standard, the Company is required to include in a note to the annual financial statements as of December 31, 2007, a balance sheet as of December 31, 2007, and a statement of income for the year then ended, that have been prepared based on the recognition, measurement and presentation criteria of IFRS.

There are differences between IFRS and generally accepted accounting principles in Israel in the recognition and measurement of assets and liabilities and in reporting and disclosure requirements. These differences could have a material impact on the Company's financial position and results of operations. The first-time adoption of IFRS will require the Company to identify such differences, a process that will entail a significant amount of time and resources.

The Company is evaluating the implications of the transition to IFRS but is presently unable to estimate the effect of the adoption of IFRS on its financial statements.

Note 3 - Business segments

A. Revenues

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Operations	***For the three month period ended March 31,***	***For the three month period ended March 31,***		***For the year ended December 31,***
	2007	***2007***	***2006***	***2006***
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro (1)	**Reported NIS**		
Products	2,360	13,060	12,822	53,711
System integration projects	2,606	14,421	7,768	40,370
Other	27	151	150	700
	4,993	*27,632*	*20,740*	*94,781*
B. Segment results				
Products	630	3,487	4,307	17,427
System integration projects	329	1,818	892	4,247
Other	(10)	(56)	16	57
Unallocated corporate expenses	(424)	(2,345)	(3,517)	(14,712)
Operating profit	*525*	*2,904*	*1,698*	*7,012*