Unitronics (1989) (R"G) LTD.

Quarterly Report as of March 31, 2008

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This Report contains forward-looking information within the meaning of Section 32A of the Israeli Securities Law, 5728-1968, including forecasts, assessments, estimates, expectations or other information pertaining to future events or issues, the realization of which is uncertain and not solely under the Company's control, if at all. This information is identified as such where it is used in this Report. Although such information is based on data available to the Company as of the date of the Report, and reflects the Company's intents and assessments as of such date, the actual occurrences and/or results may differ substantially from those presented in the Report or implied therefrom as projected or anticipated, since their realization 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
Address:	Unitronics House, Arava Street, Airport City, P.O.B. 300, Israel 70100
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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 (hereinafter: "PLCs"). PLCs are computer-based electronic products (hardware and software), used in the control and supervision of machines performing automatic tasks such as manufacturing systems and automatic systems for industrial storage, retrieval and logistics. 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 logistics systems, mainly automatic warehouses, automated distribution centers and automated parking facilities.

The Company's PLCs are distributed through 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 mainly to customers in Israel, and in a few cases, also outside Israel.

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

As of May 2004 the shares of the Company are 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 from the year 2000 on the EuroNext Stock Exchange in Brussels, Belgium).

3. Main Events in the Period of the Report and up to its Publication

Signature Rights

Pursuant to the directive of the Israeli Securities Authority from January 3, 2008 in connection with disclosure concerning signatory rights on behalf of the Company (the "**ISA Directive**") and Company management's recommendation to incorporate all signatory rights in the Company into one resolution, the Company's Board of Directors resolved on January 15, 2008 to update the list of persons authorized to sign on behalf of the Company (for details see the Immediate Report concerning the signatory rights on behalf of the Company published on January 16, 2008).

Payment for Debentures (Series 1) and EuroNext Debentures

On February 7, 2008 the Company executed the eighth payment (out of ten) of principal and interest on non-marketable debentures issued by the Company in 2001 (the terms of which were amended in 2003 as detailed in paragraph 6.4.2 of the Company's prospectus from August 16, 2008) (for details see the Immediate Report concerning a payment of Debentures (Series 5/04) from February 7, 2008).

On May 7, 2008 the Company executed the ninth payment (out of ten) of principal and interest on this debenture (for details see the Immediate Report concerning a payment of Debentures (Series 5/04) from May 7, 2008).

Following these payments, there remain debentures of this class convertible into a total of 23,459 shares of the Company, in accordance with the terms of those debentures (for details see the Immediate Report concerning a change in the Company's Securities from May 7, 2008).

Shortly after the publication of this report, on May 23, 2008, the Company is expected to execute the second payment of principal and interest on debentures (Series 1), issued by the Company in 2004 pursuant to the Company's prospectus dated May 12, 2004.

The Interest rate applicable to Debentures (Series 1) for the Eighth Period

On the first day of each period of interest for debentures (Series 1), on which the Company publishes the interest rate for such period, the interest rate of the LIBOR quoted in the Source (for determining the interest in accordance with the terms of the debentures) is not updated to that day, but to a few days earlier, and therefore the Company publishes at the beginning of the period a rate that is not actually up to date. At a later date to the first day of the period, the Source publishes an interest rate, updated to the first day, which the Company then publishes, in the event of a change of rate.

Therefore on May 5 2008, the Company published an amended report, amending the report published November 25 2007, according to which the rate of interest on the principal of debentures (Series 1) for the eighth period is 3.6781%, and the LIBOR interest rate is 4.8563%, and not as reported in the original report.

Changes in the Holdings of Holders of an Interest

In consequence of the above debenture payments, the rate of holdings of Mr. Haim Shani, the CEO of the Company and a controlling shareholder therein, increased. Mr. Shani's holding rate after the changes was: 55.49% in the capital and 59.11% in the voting rights (and on a fully diluted basis after the change: 38.81% in the capital and 41.26% in the voting rights). For details see the Immediate Report concerning status of holdings of interested parties from May 7, 2008.

Renewal of Directors and Officers Policies

On April 12, 2005 the General Meeting of the Company's shareholders approved, further to the approval of the Company's Audit Committee and Board of Directors, an increase in the insurance coverage under the directors and officers liability insurance policy and an adjustment in the amount of the Company's deductible in respect of claims filed in the U.S. and Canada. In addition, it was resolved to authorize the Company's management to renew the Company's directors and officers liability insurance policy from time to time, upon the same terms, for additional periods of up to 18 months each time.

On March 13, 2008 the Company's Audit Committee and Board of Directors approved the renewal of the directors and officers liability insurance policy for an additional period of 12 months effective December 2007, upon similar terms (for details see the Immediate Report concerning a transaction with a “controlling shareholder” or director, which does not require Shareholders’ approval from March 13, 2008).

Bonus Payment to the CEO of the Company for 2007

On April 12, 2005 the General Meeting of the Company’s shareholders approved (following approval by the Company’s Audit Committee and Board of Directors) a framework transaction, whereby Mr. Haim Shani would receive an annual bonus for each calendar year, starting from 2005, for as long as Mr. Shani is employed as CEO of the Company (hereinafter – “Future Bonuses”), at a rate of 7.5% of the pre-tax profit in that year (cost to the Company) (for details see the Immediate Report concerning the results of the General Meeting of the Company's shareholders from April 12, 2005). In accordance with the Company’s annual financial statements for the year 2007 and in light of the aforementioned, the Company paid Mr. Shani a bonus for the year 2007 in an aggregate amount of approximately NIS 208 thousand (for details see the Immediate Report concerning a transaction with a “controlling shareholder” or director, which does not require Shareholders’ approval from March 13, 2008).

Unitronics House – Lease from the Israel Lands Administration

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

Under an agreement from August 23, 2000 with Airport City Ltd. (hereinafter: "Airport City"), the Company acquired a capitalized lease right (91%) in the Company's Floors for 49 years, to be registered in its name not later than November 2007. On April 16, 2008 the Israel Lands Administration signed the lease contracts with respect to the Unitronics House.

In the framework of financing arrangements between the Company and the Industrial Development Bank for purchasing the Company's Floors (the “Previous Credit Facility”) (for details see Section 1.16.3 of the Company’s annual report for the year 2007, published March 13, 2008), the Company pledged on August 22, 2000, by a first degree fixed and floating charge, in favor of the Industrial Development Bank, its rights in Unitronics House, documentary instruments and securities that have been and/or will be deposited at the Industrial Development Bank, and rights to guarantee funds pursuant to the Sale Law (Apartments) (Securing Investments of Apartment Purchasers), 5735-1974.

On December 28, 2005 the pledges registered in favor of the Industrial Development Bank, as stated above, to secure repayment of the debt under the Previous Credit Facility, were cancelled. Concurrently with the cancellation of the aforementioned pledges, Bank Leumi is acting to register a new pledge in its favor under similar terms as the pledges cancelled, as security for repayment of the debt according to a new credit facility which the Company received from Bank Leumi and which served to repay the Previous Credit Facility (the "New Credit Facility") (for details see Section 1.16.3 of the Company's annual report for the year 2007, published March 13, 2008). On February 12, 2008 the Company's Board of Directors approved the signing a deed of pledge, a power of attorney in favor of Bank Leumi and in favor of Airport City, and an irrevocable letter of instructions to the Israel Lands Administration, all in purpose of registering a lease right in the Company's name and registration of the new pledge for securing repayment of the New Credit Facility as aforesaid.

As mentioned above, on April 16, 2008 the Israel Lands Administration signed the lease contracts with respect to the Unitronics House, and the Company also received Airport City's approval for returning to the bank the letters of guarantee that were issued to the Company under the Sale Law, the intention being to cancel them in the framework of the registration of a pledge in favor of Bank Leumi as stated above.

Changes in the Remuneration to External Directors Pursuant to Amendments to the Companies Regulations

On March 6, 2008 an amendment was published to the Companies Regulations (Rules Concerning Remuneration and Expenses of an External Director), 5760-2000. Following the publication of the amendment, the Company's Board of Directors resolved on May 22, 2008 to update the annual remuneration and the remuneration for participation of the external directors serving on the Company's Board of Directors, which, effective March 6, 2008, will stand at NIS 25,000 and NIS 1,590, respectively. According to such resolution such update will also apply to the remuneration paid to an additional director who is not an External Director (nor is he an Affiliate other than by virtue of his service as a director) and who until such update received annual remuneration and remuneration for participation equal to those paid to External Directors in the Company (for details see the immediate reports concerning a transaction with a "controlling shareholder" or director which does not require shareholders' approval from May 21, 2008).

Exercise of Option to Extend Lease Agreement in the Unitronics Building

As of August 2004, the Company leases from a company controlled by Mr. Haim Shani, Company's Chairman and CEO (hereinafter: the "Lessor") approximately 196 square meters of office space, at the "Unitronics' House", at Airport City, P.O.Box 300, Ben Gurion Airport 70100, Israel (hereinafter: "Unitronics' House" and the "Lease Agreement" respectively). This in addition to approximately 1,600 square meters at Unitronics' House to which the Company holds direct rights (for more details please see paragraph 1.12.1 of the Company's Annual Report for the year 2007, dated March 13, 2008; hereinafter: the "2007 Annual Report).

On August 11, 2005, the Company's Audit Committee and Board of Directors approved an amendment to the Lease Agreement, according to which the Company rented from the Lessor, as of August 1, 2005, 436 additional square meters at Unitronics' House, under the same terms of the Lease Agreement. As of the date of this Report, the aggregate area which is rented by the Company under the Lease Agreement totals 632 square meters (for more details with respect to the amendment to the Lease Agreement, please see the Company's immediate report concerning an "Exceptional Transaction" with a "controlling shareholder" which does not require Shareholders' approval, dated August 14, 2005).

According to the Lease Agreement, the lease's term is three years, and the Company has an option to extend it for two additional periods of 12 months each (each of which hereinafter, the "Option.

On March 25, 2007, the Company's Audit Committee and the Board of Directors approved the exercise of the Option for the first time, and the extension of the lease period by 12 additional months as of August 2007 (for more details with respect to exercise the Option for the first time, please see the immediate report concerning an "Exceptional Transaction" with a "control holder" which does not require Shareholders' approval, dated March 26, 2007).

On May 21, 2008, the Company's Audit Committee and the Board of Directors approved the exercise of the Option for the second time, and the extension of the lease period by 12 additional months as of August 2008.

Upon the exercise of the Option for the second time, and after the monthly rent fee amounts were updated, in 2006 and was increased by 4%, in accordance with the terms of the Lease Agreement, the monthly rent fee amounts will increase again by 4%, in accordance with the terms of the Lease Agreement and will be $13.52 per square meter (for more details with respect to exercise of the Option for the second time, including a summary of the Company's Audit Committee and Board of Directors' reasons for approving the transaction, please see the immediate report concerning an "Exceptional Transaction" with a "control holder" which does not require Shareholders' approval, dated May 21, 2008, and the immediate report concerning an "Exceptional Transaction" with an "Office Holder", dated May 21, 2008).

Extension of Employment Agreements of CEO and Deputy CEO

On January 1, 1999, the Company signed personal employment agreements with each of Mr. Haim Shani, Chairman and controlling shareholder of the Company, and with Mrs. Bareket Shani, Mr. Shani's wife, who also serves as a director, pursuant to which Mr. Shani serves as the Company's CEO and Mrs. Shani serves as Deputy CEO and Human Resources Manager .

On November 19, 2003, the Audit Committee and the Board of Directors approved amendments to the employment agreements between the Company and Mr. Haim Shani and Mrs. Bareket Shani, in which the agreements were extended for an additional 5 year period, extendable for additional 5 year periods each (subject to all approvals required by law). On December 18, 2003 the general meeting of the Company's shareholders approved the amendments of the aforesaid agreements.

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

On May 21, 2008, the Audit Committee and the Board of Directors resolved to approve the extension of each of the abovementioned agreements, as amended in the abovementioned amendments, for an additional period of 5 years, with effect as of January 2009, under the same terms (for more details, including a summary of the Company's Audit Committee and Board of Directors' reasons for approving the transaction, please see the immediate report concerning a transaction with a "control holder" or a director, which does not require Shareholders' approval, dated May 21, 2008.

Legal Proceedings

Dispute with Sammy Gharb

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

On September 25 2007 the court's interim ruling, addressing certain of the parties' claims, accepted Unitronics' position and ruled that Unitronics had not violated and does not violate the defendant's patent. In addition, the court rejected the defendant's counter-claims against Unitronics.

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

On January 30, 2008 the court ruled that Gharb is immediately and permanently enjoined from communicating threats and assertions of infringement based on the subject matters claimed in the above lawsuit, that Gharb is enjoined from bringing suit under the abovementioned patent against Unitronics or its customers based on their manufacture, use, sale, offers to sell, or importation of PLCs, and finally, he is enjoined from interfering in the Company's contractual relations with its customers in relation with the abovementioned patent.

The court also denied Gharb's motion for any payment, and ordered the case closed.

4. <u>Transition to International Financial Reporting Standards</u>

These financial statements are the first financial statements of the Company to be prepared in accordance with the International Financial Reporting Standards (IFRS). The Company first adopted the IFRS standards in 2008, and therefore the date of the transition to reporting according to IFRS standards is January 1, 2007.

Prior to the adoption of the IFRS standards the Company prepared its financial statements in accordance with Generally Accepted Accounting Principles (GAAP) in Israel. The Company's last annual financial statements in accordance with GAAP in Israel were prepared as of December 31, 2007 and for the year then ended.

In accordance with the directives of the Israel Securities Authority concerning disclosure on adoption of IFRS, a reporting company is required to include information on significant impact of the transition to IFRS, on the chapter regarding the Company's business, as published in the annual report on March 13, 2008 (hereinafter: the "**2007 Report**").

The following items, which are included in the Company's business chapter of the 2007 Report, have a significant impact due to the transition to IFRS (For details on all changes deriving from the transition to IFRS, see Note 4 to the financial statements of this report and note 31 of the financial statements of the 2007 Report):

1. **Fixed Assets and Other Assets:** as detailed above, the Company holds leasing rights to the Company Floors in the "Unitronics House". The Company also leases an additional lot of approximately 1,000 square meters adjacent to the Unitronics House, serving as a parking area for

the Company's employees and visitors. Under an agreement from August 23, 2000 with Airport City, the Company acquired a capitalized leasing right (91%) in the Company's Floors for 49 years.

In accordance with Generally Accepted Accounting Principles in Israel, the amounts in respect if these leasing rights were presented as "land" under the Company's fixed assets. The amount that was paid was not amortized. Under IFRS, said lease is classified in accordance with the provisions of IAS 17 – "lease", as an operating lease, and therefore the amounts paid for the capitalized leasing rights as aforesaid, which constitute leasing fees, will be separated in advance from the fixed assets item and presented under "prepaid expenses in respect of an operating lease" and amortized over the period of use of the rights as aforesaid (49 years).

2. Accordingly, with the transition to reporting under IFRS as of January 1, 2007, there was an increase in the prepaid expenses balance in respect of operating lease in the amount of NIS 3,020, thousand, the fixed asset balance for the same period decreased by NIS 3,471 thousand, and the net difference in the amount of NIS 451 thousand will be attributed to retained earnings. No material changes were recorded in these items as of December 31, 2007.

Chapter B – Board of Directors Report

1. Financial Position

Assets

Total assets according to the consolidated balance sheet of the Company as of March 31, 2008 decreased to approximately NIS 109,884 thousand compared to approximately NIS 112,900 thousand as of December 31, 2007. The decrease stemmed mainly from a decrease in the cash and trade receivables items, offset by an increase in the inventory item, as detailed hereinafter.

In the total of cash, cash equivalents and marketable securities items a decrease was recorded, and it stood at approximately NIS 50,432 thousand as of March 31, 2008 compared to approximately NIS 54,702 thousand as of December 31, 2007. The main decrease was a result of negative flow in the period as specified hereinafter, offset by net profit from the start of 2008 as specified hereinafter.

In the trade receivables and income receivable item a decrease was recorded from approximately NIS 13,995 thousand as of December 31, 2007 to approximately NIS 10,410 thousand as of March 31, 2008, attributed mainly to a decrease in income receivable from the systems sector.

An increase of approximately 17% was recorded in the amount of inventory, from approximately NIS 12,980 thousand as of December 31, 2007 to approximately NIS 15,186 thousand as of March 31, 2008. The increase stems mainly from stocking up in preparation for the start of production and first sales of PLCs from new product series (in the ordinary course of the Company's business). Nevertheless, the Company works to constantly improve efficiency in the inventory stocking up and management processes. The Company regularly keeps an inventory of parts and raw materials for about 60-100 days, which is intended to meet anticipated demand for a two-month period. In addition, the Company has an inventory of finished products intended for filling ongoing 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 Company's annual periodic report for the year 2007).

In the fixed assets item no significant change was recorded and it stood at approximately NIS 18,530 thousand as of March 31, 2008 compared to approximately NIS 18,724 thousand as of December 31, 2007.

In the other assets item an increase was recorded and it stood at approximately NIS 13,130 thousand as of March 31, 2008 compared to approximately NIS 11,487 thousand as of December 31, 2007. The increase is attributable to recording of the development assets of the Company as intangible assets, as a result of the implementation of Standard 30 of the Israel Accounting Standards Board commencing January 2007.

Liabilities

Total short term credit amounted to approximately NIS 11,140 thousand as of March 31, 2008, compared to approximately NIS 11,775 thousand as of December 31, 2007. The main amount is attributable to a current maturity of convertible debentures (Series 1) payable commencing May 2007, current maturities of Euro-denominated convertible debentures payable commencing May 2006 up until September 2008, and current maturities of long-term loans.

No significant change occurred in the trade payables item and it amounted as of March 31, 2008 to approximately NIS 12,018 thousand compared to approximately NIS 12,630 thousand as of December 31, 2007.

The payables and credit balances item amounted as of March 31, 2008 to NIS 6,266 thousand compared to NIS 8,230 thousand as of December 31, 2007. The decrease is attributable mainly to a decrease in expenses payable (in the ordinary course of the Company's business).

No significant change was recorded in the amount of long-term liabilities as of March 31, 2008 and they amounted to NIS 55,419 thousand compared to NIS 55,290 thousand as of December 31, 2007.

A decrease was recorded in the Company’s operating capital and it amounted to approximately NIS 48,156 thousand as of March 31, 2008 compared to approximately NIS 49,399 thousand as of December 31, 2007. The main decrease stems from a decrease in the cash, trade receivables and accounts payable and credit balances items, offset by an increase in the inventory items, as explained above.

No significant change was recorded in the Company’s equity capital and it stood as of March 31, 2008 at approximately NIS 24,812 thousand, compared to approximately NIS 24,764 as of December 31, 2007.

2. Operating Results

Revenues

The Company’s revenues for the quarter ended March 31, 2008 amounted to approximately NIS 18,276 thousand compared to approximately NIS 27,662 thousand for the corresponding quarter in 2007, a decrease of 34% attributable to a decrease in revenues from the systems sector, offset by an increase in revenues from the products sector.

Revenues from the products sector in the quarter ended March 31, 2008 amounted to approximately NIS 16,183 thousand, an increase of approximately 24% compared to the corresponding quarter in 2007. The increase in revenues from the products sector, in the Company’s estimation, stems mainly from growing recognition of the Company's products in the market, the introduction of new products and the international marketing efforts.

Revenues from the systems sector in the quarter ended March 31, 2008 amounted to approximately NIS 1,944 thousand, a decrease of 87% compared to the corresponding quarter in 2007. The decrease in revenues from the systems sector, in the Company's estimation, stems from a decrease in the flow of orders from customers, due *inter alia,* to the continuation of the Company's activity in the development of new markets in this sector outside Israel (mainly in the U.S. in the initial stage).

Revenues from the products sector in the quarter ended March 31, 2008 constituted approximately 88.6% of the total Company revenues in this quarter, while revenues from the systems sector in the corresponding period constituted approximately 10.6% of total revenues (another 0.8% derived from other revenues). In the corresponding quarter in 2007, revenues from the products sector constituted approximately 47.2% of total Company revenues in that quarter, while revenue from the systems sector in the same period constituted approximately 52.2% of total revenues. Overall for the year

2007, revenues from products constituted approximately 59% of revenues while revenues from systems constituted approximately 40% of revenues.

Cost of Revenues and Gross Profit

Total gross profit in the quarter ended March 31, 2008 amounted to approximately NIS 6,898 thousand (about 38% of the revenues for the period) compared to approximately NIS 8,241 thousand in the corresponding quarter in 2007 (about 30% of the revenues for the period).

The increase in gross profit rates stems mainly from the change in the composition of revenues from the different operating sectors, as explained above. Gross profit rates in the products sector are higher than gross profit rates in the systems sector.

Research and Development Costs, Net

No significant change occurred in research and development costs, net, and they amounted in the quarter ended March 31, 2008 to NIS 374 thousand compared to NIS 465 thousand in the corresponding quarter in 2007. In the reported period an intangible asset was recognized in the reporting period in respect of development costs in an amount of approximately NIS 18,827 thousand regarding which the conditions for recognition as an intangible asset were met.

Research and development costs in the reported quarter reflect continuing activity in developing technologies and new products, which are needed to support continued growth of the Company. In the reported period and thereafter, recruitment of manpower for the development teams continued, and accordingly the Company expects an increase in this item as well as in the other assets item (as a result of registration of development assets) in the coming quarters. The Company likewise expects an increase in the development costs needed for developing components for the systems sector, an activity which is aimed, *inter alia,* at reducing production costs in the systems sector.[1]

Selling and Marketing Expenses

Selling and marketing expenses in the quarter ended March 31, 2008 amounted to approximately NIS 2,903 thousand (about 16% of revenues), compared to approximately NIS 3,092 thousand (about 13% of revenues) in the corresponding period in 2007.

The selling and marketing expenses in the reported quarter were needed to support continued growth, according to the Company's policy in this area, and they included, *inter alia,* activity for developing new markets in the systems sector outside Israel, visits and participation in trade shows and other marketing activities in Israel and around the world. The Company expects an increase in this item in the upcoming quarters proportionate to the increase in revenues.[2]

[1] The information regarding an anticipated increase in the research and development costs item is forward-looking information. The main data used as a basis for this information are research and development plans of the Company, the stages reached in the technology which is being developed by the Company as of the date of the Report, and the need for continuing significant investments in research and development costs in order to fulfill the Company's plans. The main factors which could lead to these developments not being achieved are changes in the Company's development plans for reasons not under the Company's control (such as market needs and consumer preferences, competitors' developments, prices of raw materials and services which the Company requires), the absence of a budget to finance the development in general or in the scope required by the Company, and possible technological difficulties in completing the development stages according to these plans.

[2] The information regarding an anticipated increase in the selling and marketing expenses item is forward-looking information. The main data used as a basis for this information are the Company's marketing activities including planned visits to trade shows and training for distributors, and the need for continuing significant investments in marketing expenses including expenses for registering intellectual property rights, including trademarks and domain names on the Internet. The main factors which could result in these plans not being fulfilled are changes in the Company's marketing plans for reasons not under the Company's control (such as changes at the Company's distributors, changes in the Company's main markets and/or in markets in which the Company does not operate, and marketing activities of competitors).

General and Administrative Expenses

A decrease was recorded in the quarter ended March 31, 2008 in the general and administrative expenses item and they amounted to approximately NIS 1,456 thousand compared to approximately NIS 1,831 thousand in the corresponding quarter in 2007. The main change stems from a decrease in costs of professional advice needed by the Company (mainly due to the conclusion of a number of legal proceedings that were being conducted abroad).

Operating Profit

A decrease was recorded in the quarter ended March 31, 2008 in operating profit, which amounted to approximately NIS 2,165 thousand compared to an operating profit of approximately NIS 2,853 thousand in the corresponding quarter in 2007.

The decrease in operating profit in the reported quarter is attributable mainly to a decrease in Company revenues, offset by the effect of the increase in the gross profit rate and the decrease in the research and development, marketing and administrative items as explained above.

Financing Revenues and Expenses

Financing expenses in the quarter ended March 31, 2008 amounted to approximately NIS 1,675 thousand compared to approximately NIS 987 thousand in the corresponding quarter in 2007.

The main increase in this item in comparison with the corresponding period in 2007 stems from a decrease in Company revenues deriving from marketable securities, as well as from the revaluation of debentures (Series 2) which are linked to the consumer price index (CPI) according to the Company’s August 2006 prospectus. This item also includes the interest components of the Company's debentures, mainly debentures (Series 2), which were issued according to the August 2006 prospectus, as well as financing costs in respect of long-term credit.

Commencing May 2004 the Company’s exposure to fluctuations in the exchange rate of the shekel against the dollar increased, following the issuance of convertible debentures (Series 1) according to the Company’s May 2004 prospectus, which are linked to the dollar rate and in respect of which the principal began to be paid in 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 affected by these factors in the upcoming quarters.

Commencing August 2006 the Company’s exposure to changes in the CPI rates increased, following the issuance of debentures (Series 2) according to the August 2006 prospectus, which are linked to the CPI. In addition to this exposure to fluctuations in the CPI rates, there is an interest component as a result of this issuance and accordingly the Company estimates that this item will be affected by these factors in the upcoming quarters.

Net Profit

In the reported quarter the Company presented a net profit amounting to approximately NIS 490 thousand (about 2.7% of revenues), compared to a net profit of approximately NIS 1,866 thousand in the corresponding quarter in 2007 (about 6.7% of revenues).

The Company believes that the decrease in revenue from the systems sector, as explained above, is the principal cause of the decrease in net profit in the reported period.

Analysis of Business Results according to Activity Segments

As aforementioned, the main commercial activity of the Company is conducted by means of two business departments, the Products Department and the Systems Department. Details of the results of the different segments appear below.

Products Sector

The results of the products sector in the reported period amounted to approximately NIS 6,335 thousand, compared to approximately NIS 3,487 thousand for the corresponding period in 2007. The growth in the results of this sector in the reported period stems, in the Company's estimation, from the increase in Company revenues from this sector in the reported period.

Systems Sector

The results of the systems sector in the reported period amounted to a loss of approximately NIS 1,825 thousand, compared to a profit of approximately NIS 1,848 thousand in the corresponding quarter in 2007. The decline in the results of this sector in the reported period stems, in the Company's estimation, from the decrease in revenues from this sector in the reported period, as explained above, and from fixed expenses required for continuing support.

3. Liquidity and Sources of Financing

The balance of cash, cash equivalents and marketable securities of the Company stood on March 31, 2008 at approximately NIS 50,432 thousand, compared to approximately NIS 54,702 thousand as of December 31, 2007. This decrease stems mainly from a negative cash flow during the reported period as explained below.

Cash flow from operating activities in the quarter ended March 31, 2008 amounted to a negative flow of approximately NIS 886 thousand, stemming mainly from an increase in the inventory item, offset by the decrease in the trade receivables item and by the net profit for the period, as explained above.

The cash flow from investment activities in the quarter ended March 31, 2008 amounted to a negative flow of approximately NIS 2,778 thousand, due mainly to the recording of investments in development assets and due also to the purchase of marketable securities during the period.

The cash flow from financing activities in the quarter ended March 31, 2008 amounted to a negative flow of approximately NIS 811 thousand. The negative flow derived mainly from the repayment of Euro-denominated convertible debentures that were issued in February 2001.

On March 31, 2008, total credit facilities available to the Company for current operations stood at approximately NIS 15 million. On March 31, 2008, a total amount of approximately NIS 60 thousand was utilized from this credit line mainly for securing the Company's obligations in projects carried out by the Systems Department.

4. Qualitative Report Concerning Exposure to Market Risks and Handling of Risk Management

The persons in the Company responsible for the management of market risks are the Company's CEO and CFO. The CFO is responsible for gathering information according to the list of risks detailed below, processing it and presenting it to the CEO on a quarterly basis. The CEO is responsible for analyzing the information and drawing operative conclusions in the framework of quarterly work meetings with the CFO.

Exposure to Exchange Rate Fluctuations

The Company is exposed to exchange rate fluctuations, mainly changes in the U.S. dollar rate in relation to the shekel and in relation 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 are linked to the representative exchange rate of the U.S. dollar (according to a base rate of NIS 4.59 per US$1); the repayment of the principal of the debentures began May 2007. Up to their full conversion or full repayment in May 2010, the Company is exposed to fluctuations in the dollar rate in relation to the shekel. On November 23, 2007 the Company executed an interest payment on this debenture, and on May 23, 2008 it is expected to execute a second payment of principal and an interest payment on this debenture.

In February 2001 the Company issued convertible debentures, which were issued and are denominated in Euro. In December 2003, 75% of the principal of the debentures was converted into Company shares. Up until their full conversion or full repayment, commencing in May 2006 and until September 2008, the Company is exposed to fluctuations in the Euro exchange rate in relation to the shekel. The Company paid, up until May 7, 2008, nine out of ten payments of the principal and interest on these debentures.

Company assets exposed to exchange rate fluctuations include mainly deposits in various currencies (mainly Euro and U.S. dollar), trade liabilities of customers denominated in various currencies, depending on the customer, which do not bear interest, and foreign currency linked marketable securities.

The current liabilities items, which are exposed to exchange rate fluctuations, include current maturities of long-term loans, which are mostly linked to foreign currency, as well as trade payables in foreign currency (mainly Euro). Long-term liabilities include liabilities in respect of the New Credit Facility, a financing plan for the acquisition of rights to the Company's facilities at Airport City, of which approximately 50% are denominated in U.S. dollars and approximately 50% in Euro.

The Company's activity is conducted in foreign currency or in shekels linked to a foreign currency. In the products sector, the revenues are denominated in U.S. dollars or are linked to the U.S. dollar rate, with the exception of revenues deriving from sales in Europe, which are mostly denominated in Euro. In the systems sector, most of the Company's revenues derive from sales denominated in Euro or linked to the Euro exchange rate.

Raw materials that are required for the manufacture of the Company's products include mainly various electronic and mechanical components, and their prices are mostly denominated in foreign currency (mainly dollar and Euro).

The exchange rate of the dollar in relation to the Shekel was at the beginning of the reported period on December 31 2007, NIS 3.8460 per one dollar, at the end of the period on March 31 2008, NIS3.553 per one dollar, and close to the publication of the report, 3.378 NIS per one dollar (as of May 20, 2008).

The exchange rate of the Euro in relation to the Shekel was in the beginning of the reported period on December 31 2007, NIS 5.6592 per one Euro, at the end of the period on March 31 2008, NIS 5.6169 per one Euro, and close to the publication of the report, 5.293 NIS per one Euro (as of May 20, 2008).

Exposure to Changes in the Consumer Price Index

In August 2006, the Company issued debentures (Series 2). These debentures are linked to the Israeli CPI, but not less than a base index of 188.1 (1993 average). As a result, commencing in August 2006 the Company's exposure to fluctuations in the Israeli CPI increased. Developments and changes in the Israeli economy including depreciation and inflation can cause changes in the CPI, impacting the financing income/expenses of the Company.

Risks Related to Marketable Securities

Some of the Company's financial means are invested in marketable securities. Exceptional developments in the capital markets in Israel and the abroad can cause fluctuations in the prices of marketable securities on the stock exchange, impacting the financing income/expenses of the Company.

Interest Risks

The Company has various loans relating to the acquisition of rights in the Company's facilities at Airport City, convertible debentures (Series 1) issued by the Company according to the 2004 prospectus as well as other credit facilities, that bear various interest rates and which are exposed to possible changes in the prime and/or LIBOR interest rates.

The Company's Market Risk Management Policy

The Company's policy is to try and reduce, in every contract, its exposure to fluctuations in the exchange rate by matching the currency of the revenues to the currency of the main expenses. In the systems sector, the Company usually links the payment terms (dates/foreign currency) of the various clients to the payment terms of the subcontractors.

Company policy as to the diversification of investments is guided by the intention to reduce Company exposure to dollar liabilities (mainly payments of principal and interest on convertible debentures (Series 1) which are linked to the dollar).

For this purpose, the Company, in consultation with professionals in the capital market, examined shortly after publication of the 2004 prospectus (and receipt of the issuance funds), 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.

In the Company's estimation, as its liabilities in respect of convertible debentures (Series 1) which were issued pursuant to the 2004 prospectus are linked to the dollar rate and not less than a base rate of NIS 4.59 to the dollar, the use of deposits linked only to the dollar cannot secure the Company's liabilities in respect of debentures (Series 1), especially following the drop in the dollar exchange rate below the base rate mentioned above. On May 24, 2007 the Company paid 25% of the total nominal value of the principal of the convertible debentures (Series 1) in an amount of NIS 8,750 thousand according to the base rate, which is, as aforesaid, NIS 4.59 to the dollar (while the representative exchange rate of the dollar on the payment date stood at only NIS 3.9910).

Shortly after the publication of this report, the Company is expected on May 23 2008to pay an additional 25% of the total nominal value of the principal of the convertible debentures (Series 1) in an amount of NIS 8,750 thousand according to the base rate, which is, as aforesaid, NIS 4.59 to the dollar. Following such payment, an outstanding 50% of the nominal value of the principal of such debentures will remain, amounting to NIS 17,000 thousand.

The use of derivatives and other financial instruments as security against fluctuations in the dollar exchange rate for the purpose of meeting the Company's liabilities in respect of the convertible debentures (Series 1) was found by the Company to not be profitable in view of the high costs involved.

Beyond the activities described above, the market risk management and protective measures taken during the reported year are presented to the Board of Directors on a quarterly basis and in the framework of the discussions pertaining to the periodic reports.

5. Consolidated Report on Linkage Bases							
	As of March 31, 1008						
	Israeli Currency		Foreign Currency				
	Unlinked	CPI-Linked	In Euro	In U.S. Dollars	In Other Currencies	Non-Monetary Balances	Total
	NIS in Thousand						
Assets							
Cash and cash equivalents	2,115	-	4,442	4,800	-	-	11,357
Marketable securities	4,823	27,066	-	7,186	-	-	39,075
Trade receivables and income receivable	4,605	-	3,746	2,059	-	-	10,410
Accounts receivable and debit balances	1,131	-	-	-	-	333	1,464
Inventory	-	-	-	-	-	15,186	15,186
Inventory of work in progress	-	-	-	-	-	317	317
Long-term deposits	-	-	-	-	-	415	415
Fixed assets, net	-	-	-	-	-	18,530	18,530
Other assets and deferred expenses, net	-	-	-	-	-	13,130	13,130
Total assets	12,674	27,066	8,188	14,045	-	47,911	109,884
Liabilities							
Short-term credit and current maturities on long-term loans	-	124	1,878	9,138	-	-	11,140
Trade payables	11,484	-	279	255	-	-	12,018
Option warrants	-	-	-	229		-	229
Accounts payable and credit balances	5,893	-	-	232	-	141	6,266
Long-term loans	-	76	4,536	3,392	-	-	8,004
Convertible debentures	-	-	-	15,901	-	-	15,901
Debt component of convertible debentures	-	-	-	1	-	-	1
Debentures	-	31,266	-	-	-	-	31,266
Liabilities for employee termination benefits, net	247	-	-	-	-	-	247
Deferred taxes	-	-	-	-	-	-	-
Total liabilities	17,624	31,466	6,700	29,158	-	141	85,089
Net Balance	(4,950)	(4,400)	1,495	(15,103)	-	47,770	24,812

6. Sensitivity Tests of Financial Instruments as of March 31, 2008

The Company conducted, as of the balance sheet date, four sensitivity tests in respect of changes within an upper and lower range of 5% and 10% in market factors.

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

	Profit (loss) due to change, NIS in thousands		NIS in thousands	Profit (loss) due to change, NIS in thousands	
	+10% NIS 3.91 per $	+5% NIS 3.73 per $	Fair value NIS 3.553 per $	-5% NIS 3.38 per $	-10% NIS 3.20 per $
Cash and cash equivalents	480	240	4,800	-240	-480
Marketable securities	719	359	7,186	-359	-719
Trade receivables and income receivable	206	103	2,059	-103	-206
Short-term credit and current maturities on long-term liabilities (*)	-39	-19	-9,138	19	39
Trade payables	-26	-13	-255	13	26
Option warrants	-23	-11	-229	11	23
Accounts payable and credit balances	-23	-12	-232	12	23
Long-term loans	-339	-170	-3,392	170	339
Convertible Debentures (**)	-	-	-15,901	-	-
Debt component of convertible Debentures	-	-	-1	-	-
Total	955	477	-15,102	-477	-955

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

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

	Profit (loss) due to change, NIS in thousands		NIS in thousands	Profit (loss) due to change, NIS in thousands	
	+10% NIS 6.18 per €	+5% NIS 5.90 per €	Fair value NIS 5.6169 per €	-5% NIS 5.34 per €	-10% NIS 5.06 per €
Cash and cash equivalents	444	222	4,442	-222	-444
Trade receivables and income receivable	375	187	3,746	-187	-375
Short-term credit and current maturities on long-term liabilities	-188	-94	-1,878	94	188
Trade payables	-28	-14	-279	14	28
Long-term loans	-454	-227	-4,536	227	454
Total	149	74	1,495	-74	-149

3) Table listing changes in the fair value of financial instruments sensitive to fluctuations in the consumer price index

	Profit (loss) due to change, NIS in thousands		NIS in thousands	Profit (loss) due to change, NIS in thousands	
	+10% 210.46 points	+5% 200.90 points	Fair value 191.33 points	-5% 181.76 points	-10% 172.20 points
Marketable securities	2,707	1,353	27,066	-1,353	-2,707
Short-term credit and current maturities of long-term liabilities	-12	-6	-124	6	12
Long-term loans	-8	-4	-76	4	8
Bonds (***)	-3,127	-1,563	-31,266	528	528
Total	-440	-220	-4,400	-815	-2,159

*** Debentures issued based on base CPI of 188.1 points (1993 average)

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

	Profit (loss) due to change, NIS in thousands		NIS in thousands	Profit (loss) due to change, NIS in thousands	
	10%+	5%+	Fair value	-5%	-10%
Local - government	1,170	585	11,698	-585	-1,170
Local - corporate	2,738	1,369	27,377	-1,369	-2,738
Foreign - corporate	3,907	1,954	38,617	-1,954	-3,907

7. Impact of the Transition to IFRS on the Financial Status and Operating Results

As abovementioned, these financial statements are the first financial statements of the Company to be prepared in accordance with the International Financial Reporting Standards ("IFRS Standards"). The Company first adopted the IFRS Standards in 2008, and therefore the date of the transition to reporting according to IFRS standards is January 1, 2007.

In accordance with the directives of the Israel Securities Authority relating to disclosure on adoption of IFRS, a reporting company is required to include information on significant impact of the transition to IFRS, on the financial status, operating results, liquidity and sources of financing.

In the following items included in the Company's board of directors' report, significant impact was noted due to the transition to IFRS (For details on all changes deriving from the transition to IFRS, see Note 4 to the financial statements of this report and note 31 of the financial statements of the 2007 Report):

1. **<u>Fixed Assets and Other Assets</u>**: As detailed in section 4 of the preface of this report, the Company holds leasing rights to the Company Floors in the "Unitronics House". The Company also leases an additional lot of approximately 1,000 square meters adjacent to the Unitronics House, serving as a parking area for the Company's employees and visitors. Under an agreement from August 23, 2000 with Airport City, the Company acquired a capitalized leasing right (91%) in the Company's Floors for 49 years, as detailed in sections 1 and 4 of the preface.

   With the transition to reporting under IFRS as of January 1, 2007, there was an increase in the prepaid expenses balance (recorded in the Other Assets and Deferred Expenses, Net item) in respect of operating lease in the amount of NIS 3,020, thousand. Correspondingly, the fixed asset balance for the same period decreased by NIS 3,471 thousand, and the net difference in the amount of NIS 451 thousand was carried to retained earnings.

   No material changes were recorded in these items as of March 31, 2007, and as of December 31, 2007.

2. **<u>Options</u>:** pursuant to Generally Accepted Accounting Principles in Israel, the Company's shareholders' equity includes proceeds in the amount of NIS 1,138 thousand which was received in respect of option warrants issued by the Company to investors in 2004, whose exercise price is linked to the dollar, and in respect of option Instruments issued by the Company in 2006, whose exercise price is linked to the CPI.

   Pursuant to IAS 32 – "Financial Instruments: Presentation", these option Instruments constitute a "financial liability" since they include an non-fixed exercise price (as they are linked to the CPI and to the dollar), which is presented in the Company's consolidated balance sheet under liabilities. These liabilities will be measured in accordance with the provisions of IAS 39 – "Financial Instruments: Recognition and Measurement", that is, they will be presented according to the fair value of the options Instruments at each balance sheet date, while the changes in the fair value will be carried to the statement of income.

   With the transition to IFRS, as of January 1, 2007, the proceeds from said option Instruments in the amount of NIS 1,138 thousand, that were included as part of the shareholders' equity, were deducted and recognized as a liability in the amount of NIS 1,829 thousand, which represents the fair value of the option Instruments as of that date. The difference between said amounts of NIS 691 thousand was carried to retained earnings. As of March 31, 2007, an increase of NIS 1,527 thousand was recorded in this item, compared to the registration according to the Israeli standardization. As of December 31, 2007, an increase of NIS 211 thousand was recorded in this item compared to the registration according to the Israeli standardization.

   It should be noted that the presentation of the option Instruments according to their fair value at each balance sheet date, including this report, may cause material fluctuations in the financial income (expenses) of the Company.

3. **<u>Conversion Component of Debentures Convertible into Shares</u>:** in May 2004 the Company issued Debentures convertible into Ordinary Shares of the Company. The Debentures and their conversion price are linked to the dollar's exchange rate. Pursuant to the transition provisions of Accounting Standard No. 22 of the Israeli Accounting Standard Board - "Financial Instruments: Disclosure and Presentation", said Debentures constitute a compound financial instrument that includes a liability component and an equity component. Accordingly, the proceeds received in the bond issuance were split into these components in the matter set forth in Standard 22.

   In accordance with IAS 32 – "Financial Instruments: Presentation", since the conversion component is linked to foreign currency and is not fixed in shekel terms (the Company's currency of operation), it constitutes a financial liability and not an equity component. The said conversion component will be measured in accordance with IAS 39 – "Financial Instruments: Recognition and Measurement" on the basis of its fair value, while the changes in the fair value of this component are to be carried to the statement of income each period.

   Accordingly, with the transition to IFRS, as of January 1, 2007, the liabilities presented as Convertible Debentures decreased in the amount of NIS 584 thousand, the share premium increased in the amount of NIS 1,808 thousand, the equity component that was allocated to this instrument was cancelled, pursuant with Standard 22 above (which was presented under "receipts on account of option warrants") in the amount of NIS 235 thousand, and a liability for the conversion component for an amount of NIS 1,003 thousand as of January 1, 2007 was created, against an increase in retained earnings in the amount of NIS 1,992 thousand. In addition, as of March 31, 2007, an increase of NIS 657 thousand was recorded in the conversion component compared to the registration according to the Israeli General Accepted Accounting Principles. As of December 31, 2007, an increase of NIS 1 thousand was recorded in this item compared to the registration according to the Israeli standardization.

   It should be noted that the presentation of conversion component according to the fair value at each balance sheet date, including this report, may cause material fluctuations in the financial income (expenses) of the Company.

4. **<u>Liability for Employee Severance Benefits</u>:** in accordance with Generally Accepted Accounting Principles in Israel, the Company's liability for severance pay is calculated based on the recent salary of the employee multiplied by the number of years of employment (one monthly salary for each year of employment), for each balance sheet date, and the reserved amounts in respect of this liability are valued based on the cash surrendered value at each balance sheet date.

   According to IFRS, the liability for employee severance pay is calculated in accordance with IAS 19 “Employee Benefits” (hereinafter – IAS 19). Pursuant to the provisions of IAS 19, the Company's severance pay plan falls under a “defined benefit plan” which is set forth in IAS 19. Therefore, the liability for employee severance benefits, under the plan, is measured on the basis of actuarial estimates while taking into account, *inter alia*, future wage increments and employee termination rates. The measurement is carried out on the basis of discounted expected cash flows, on a basis of interest rates on high-rated shekel-linked government debentures, since the Company estimates that there is not a large enough or negotiable market sufficient to obtain solid rates of return, whose repayment date is close to the period of liabilities for severance benefits. In addition, the reserved amounts (the plan's assets) are measured at their fair value.

   Pursuant to the provisions of IFRS 1, the Company elected the alleviation relating to IAS 19 under which, upon the transition to reporting in accordance with IFRS, the Company shall recognize the net actuarial gains/losses as part of the shareholders’ equity as of January 1, 2007. The meaning of this alleviation is that the Company is not required to calculate the amounts of deferred actuarial gains or losses for each reporting year since the date of its establishment in order to determine the actuarial gains or losses as of January 1, 2007. Therefore, the Company's financial statements reported under IFRS as of January 1, 2007, shall include the full amounts of its net actuarial liabilities in respect of the plan. The difference between the amount of net liabilities measured as aforesaid, in respect of employee severance benefits under IAS 19, as of January 1, 2007, and the amount in which are presented under General Accepted Accounting Principles in Israel, which amounts to a decrease in said liabilities of NIS 1,135 thousand shall be carried, upon the transition to IFRS, to retained earnings. In addition, as of March 31, 2007, a decrease of NIS 1,077 thousand was recorded in this item compared to the registration according to the Israeli General Accepted Accounting Principles, and as of December 31, 2007, a decrease of NIS 1,385 thousand was recorded in this item compared to the registration according to the Israeli General Accepted Accounting Principles.

5. **Financial Income:** With the transition to IFRS, the financial income decreased in the amount of NIS 517 thousand, as of March 31, 2007, compared to the registration according to the Israeli General Accepted Accounting Principles, mainly due to the changes in option Instruments and conversion component of debentures convertible into shares.

   As of December 31, 2007, the financial income decreased in the amount of NIS 3,093thousand compared to the registration according to the Israeli General Accepted Accounting Principles, mainly due to the changes in option Instruments and conversion component of debentures convertible into shares, and due to the adoption of international standard IAS 39, that requires separation of compounded derivatives from selling transactions, which are not in in the currency of operation of any of the parties to the transaction.

8. Details of the Process of Approval of the Company's Financial Statements

The Company's financial statements are prepared by its CFO. The statements are reviewed (and in the relevant cases also audited) by the Company's auditor, who is given full access to all data and information in the Company, including meetings with the Company's employees and directors, as required by him. Following the auditor's review/audit, the statements are submitted to the members of the Company's Board of Directors for review prior to and in preparation for discussion in Board meetings that are convened for this purpose. The Company regards the Board of Directors as the entity in charge of overall control of the Company's financial statements. The members of the Company's Board of Directors and their respective duties in the Company are as follows:

1) Mr. Haim Shani – Chairman of the Board and Company CEO, and a director with professional qualifications.
2) Ms. Bareket Shani – Professionally qualified director, Vice President and Head of Human Resources, member of the Credit and Investment Committee and of the Securities Committee of the Company's Board of Directors.
3) Zvi Livneh, CPA – Director with accounting qualifications, member of the Audit Committee.
4) Ron Mishael, CPA – External director with accounting qualifications, member of the Audit Committee and of the Credit and Investment Committee of the Company's Board of Directors.
5) CPA Moshe Braz – External director with accounting qualifications, member of the Audit Committee and of the Securities Committee of the Company's Board of Directors.

Following the Board of Directors' perusal, a Board meeting is held for the purpose of presentation and discussion of the financial statements. In the meeting the Company's management reviews the main data of the financial statements. The meeting is also attended by the Company's auditor, who reviews certain aspects of the statements, accounting issues related to the financial statements and the review and audit processes that were conducted by him in the Company and then answers questions of the Board members that are addressed to him (together with the Company CEO and the CFO, who answer questions that are addressed to them). Within the framework of the Board of Directors' discussion, comments and/or clarifications or requests for additional data are often made, which are then reflected in the financial statements. At the end of the discussion, the statements are submitted for the Board's approval by a vote.

________________________	________________________
Haim Shani	Zvi Livneh
Chairman and CEO	Director

Date: May 21, 2008

UNITRONICS (1989) (R"G) LTD.

Financial Statements
March 31,2008

(Unaudited)

Unitronics (1989) (R"G) Ltd.

Financial Statements

March 31, 2008

(unaudited)

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

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

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, 2008, 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, 2008 represent approximately 3.5% of the total assets included in the Consolidated Interim Balance Sheet and whose income for the three month period ended March 31, 2008 represents approximately 16% 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 International Financial Reporting Standard (IFRS) as defined in IAS34 ("Interim Financial Reporting") including the disclosure in accordance with chapter D to the Securities Regulations (Periodic and Immediate Reports) - 1970.

Amit, Halfon
Certified Public Accountants (Israel)

May 21, 2008

Unitronics (1989) (R"G) Ltd. Consolidated Balance Sheets	March 31, 2008	March 31, 2008	March 31, 2007	December 31, 2007
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro (1)	Reported NIS		
Current assets				
Cash and cash equivalents	2,022	11,357	6,952	16,085
Marketable securities	6,957	39,075	54,354	38,617
Accounts receivable -				
Trade	1,853	10,410	26,693	13,995
Other	261	1,464	1,780	249
Inventory	2,704	15,186	12,184	12,980
Inventory - work in progress	56	317	752	319
	13,853	77,809	102,715	82,245
Non-current assets				
Long-term deposits	74	415	382	444
Property and equipment	3,299	18,530	19,111	18,724
Other assets	2,337	13,130	5,656	11,487
	5,710	32,075	25,149	30,655
Total assets	**19,563**	**109,884**	**127,864**	**112,900**
Current liabilities				
Current maturities of long-term liabilities	1,983	11,140	11,877	11,775
Accounts payable -				
Trade	2,140	12,018	13,328	12,630
Other	1,115	6,266	13,985	8,230
Warrants	41	229	1,527	211
Embedded derivatives	-	-	233	-
	5,279	29,653	40,950	32,846
Long-term liabilities				
Long-term debt	1,425	8,004	9,599	8,578
Convertible bonds	2,831	15,901	24,603	15,609
Conversation option of convertible bonds	(*)-	1	657	1
Bonds	5,566	31,266	30,042	30,941
Accrued severance pay, net	45	247	685	161
	9,867	55,419	65,586	55,290
Shareholders' equity				
Share capital	63	352	352	352
Capital reserves	58	326	293	323
Share premium	8,946	50,250	50,250	50,250
Capital reserve from translation of foreign operations	(183)	(1,029)	(70)	(584)
Company shares held by the company	(508)	(2,853)	(2,640)	(2,853)
Accumulated loss	(3,959)	(22,234)	(26,857)	(22,724)
	4,417	24,812	21,328	24,764
Total liabilities and shareholders' equity	**19,563**	**109,884**	**127,864**	**112,900**

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

Approved: May 21, 2008.
(*) Less than 1,000 Euro.
(1) See note 2V.

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,		For the year ended December 31,
	2008	2008	2007	2007
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro (1)	NIS		
Revenues	3,254	18,276	27,662	102,268
Cost of revenues	2,026	11,378	19,421	70,865
Gross profit	1,228	6,898	8,241	31,403
Development expenses, net	67	374	465	1,647
Selling & marketing expenses	517	2,903	3,092	13,567
General & administrative expenses	259	1,456	1,831	6,576
Operating profit	385	2,165	2,853	9,613
Financing income	63	352	1,071	4,695
Financing expenses	361	2,027	2,058	8,650
Profit for the period	87	490	1,866	5,658
Profit per ordinary share NIS 0.02 par value	0.008	0.044	0.162	0.511

(1) See note 2V.

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	Capital reserve from translation of foreign operations	Company shares held by the company	Accumulated Loss	Total
				NIS in thousands			
Balance at January 1, 2007 (audited)	352	279	50,250	-	(2,640)	(28,723)	19,518
Purchase of company shares by the company	-	-	-	-	(213)	-	(213)
Benefit arising from warrants granted	-	44	-	-	-	-	44
Translation of foreign operations	-	-	-	(584)	-	-	(584)
Actual profits	-	-	-	-	-	341	341
Profit for the year	-	-	-	-	-	5,658	5,658
Balance at December 31, 2007 (audited)	352	323	50,250	(584)	(2,853)	(22,724)	24,764
Benefit arising from warrants granted	-	3	-	-	-	-	3
Translation of foreign operations	-	-	-	(445)	-	-	(445)
Profit for the period	-	-	-	-	-	490	490
Balance at March 31, 2008 (unaudited)	352	326	50,250	(1,029)	(2,853)	(22,234)	24,812
Balance at January 1, 2007 (audited)	352	279	50,250	-	(2,640)	(28,723)	19,518
Benefit arising from warrants granted	-	14	-	-	-	-	14
Translation of foreign operations	-	-	-	(70)	-	-	(70)
Profit for the period	-	-	-	-	-	1,866	1,866
Balance at March 31, 2007 (unaudited)	352	293	50,250	(70)	(2,640)	(26,857)	21,328
				Convenience translation into Euro in thousands (unaudited) (1)			
Balance at January 1, 2008	63	58	8,946	(104)	(508)	(4,046)	4,049
Benefit arising from warrants granted	-	(*)-	-	-	-	-	-
Translation of foreign operations	-	-	-	(79)	-	-	(79)
Profit for the period	-	-	-	-	-	87	87
Balance at March 31, 2008	63	58	8,946	(183)	(508)	(3,959)	4,417

(*) Less than 1,000 Euro.
(1) See note 2V.

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,		For the year ended December 31,
	2008	2008	2007	2007
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro (1)	NIS		
Profit for the period	87	490	1,866	5,658
Depreciation and amortization	204	1,143	1,249	4,561
Loss from marketable securities, net	44	245	23	803
Benefit arising from warrants granted	1	3	14	44
Increase in accrued severance pay, net	15	85	192	10
Reevaluation of warrants and conversion option of convertible bonds	3	18	(648)	(2,620)
Exchange rate changes of long-term debt and convertible bonds	(49)	(277)	(140)	211
Reevaluation of embedded derivatives	-	-	130	(103)
Decrease (increase) in accounts receivable - trade	619	3,478	(9,780)	2,799
Decrease (increase) in accounts receivable - other	(215)	(1,205)	(1,147)	394
Decrease (increase) in inventory	(408)	(2,292)	799	774
Decrease (increase) in inventory - work in progress	(*)-	2	(558)	(125)
Increase (decrease) in accounts payable - trade	(109)	(611)	1,218	517
Increase (decrease) in accounts payable - other	(350)	(1,965)	1,516	(5,064)
Cash flows provided by operating activities	(158)	(886)	(5,266)	(7,859)
Investment in marketable securities, net	(125)	(703)	(23,987)	(9,030)
Purchase of property and equipment	(40)	(225)	(1,047)	(1,997)
Investment in long-term deposits		-	(78)	(201)
Repayment of long-term deposits	2	11	35	73
Investment in other assets	(332)	(1,861)	(1,912)	(8,022)
Cash flows used in investing activities	(495)	(2,778)	(26,989)	(19,177)
Repayment of long-term loans	(45)	(252)	(276)	(1,229)
Repayment of convertible bonds	(99)	(559)	(400)	(10,723)
Purchase of company shares by the company	-	-	-	(213)
Cash flows used in financing activities	(144)	(811)	(676)	(12,165)
Translation differences in respect of subsidiary cash balances	(45)	(253)	(23)	(338)
Increase (decrease) in cash and cash equivalents	(842)	(4,728)	(32,954)	(23,821)
Cash and cash equivalents at beginning of period	2,864	16,085	39,906	39,906
Cash and cash equivalents at end of period	2,022	11,357	6,952	16,085

(*) Less than 1,000 Euro

(1) See note 2V.

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,		For the year ended December 31,
	2008	2008	2007	2007
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro (1)	NIS		
Appendix A - additional information				
Cash paid during the period for:				
Interest	221	1,240	1,265	5,376
Taxes on income	5	27	27	108
Cash received during the period for:				
Interest	69	390	729	2,480

(1) See note 2V.

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

A. Declaration of complying with International Financial Reporting Standards

These financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). These statements are the first ones that the Company prepared for part of the period included in the first annual statements, in accordance with IFRS, and IFRS 1 – "First Adoption of the IFRS" was adopted in their preparation (see also (b) below).
The interim consolidated financial statements were prepared in accordance with IAS 34 - Interim Financial Reporting, and do not include all the information required in full annual reports.
In connection with certain notes, such as information regarding commitments, pending claims etc., the annual financial statements of the Company as at December 31, 2007 and for the year then ended, prepared in accordance with generally accepted accounting principles in Israel, should be studied.

B. First adoption of IFRS

These financial statements were prepared for the first time in accordance with International Financial Reporting Standards (hereinafter: "IFRS"), in a condensed format as at March 31, 2008 and for the period of three months then ended (hereinafter: "the interim consolidated financial statements").
The IFRS, on the basis of which the accounting policy was determined in the interim consolidated financial statements, are those IFRS which will be in force or which can be adopted earlier in the first annual financial statements, in accordance with IFRS as at December 31, 2008 and for the year then ended, and therefore they are subject to the changes that will apply in them and for their application which are in force in these annual financial statements; therefore, the accounting policy applied in the annual financial statements, to the extend that they are relevant to these interim financial statements, will be finally determined only with the preparation of the above mentioned annual financial statements.
The Company has adopted the IFRS for the first time in 2008; therefore, the transition date for reporting in accordance with IFRS is January 1, 2007. Prior to adopting the IFRS, the Company prepared its financial statements in accordance with generally accepted accounting principles in Israel. The Company's last annual financial statements in accordance with generally accepted accounting principles in Israel, were prepared as at December 31, 2007 and for the year then ended.
See Note 4 regarding the reconciliation between reporting in accordance with generally accepted accounting principles in Israel and reporting in accordance with IFRS.

Note 2 - Significant Accounting Policies

The following are the significant accounting policies that the Company adopted in these financial statements with the first adoption of the IFRS, and which will consistently apply in all the periods presented:

A. Basis of presentation of the financial statements

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

Consolidated financial statements

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

Note 2 - Significant Accounting Policies (cont'd)

B. **Functional currency and foreign currency**

1. Functional currency

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

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

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

The loans 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 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.

C. Cash and cash equivalents

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

Note 2 - Significant Accounting Policies (cont'd)

D. Financial instruments – classification and measurement

A financial instrument is any contract which creates both a financial asset for one entity and a financial liability or capital instrument for another entity.
A hybrid financial instrument is a contract that includes a hosting contract being a non derivate host contract and an embedded derivative.
The accounting treatment of financial instruments is based on their classification to one of the four following groups:
- A financial statements or financial liability measured at fair value through the statement of operations.
- Investments held for redemption.
- Loans and other receivables.
- Financial assets available for sale.

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

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

2. Investments held to redemption

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

Note 2 - Significant Accounting Policies (cont'd)

3. Loans and receivables

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

4. Financial instruments available for sale

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

5. Fair value

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

6. Disposal financial instruments

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

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

When a Company assigned its rights to receive cash flows from the asset and did not transfer and did not keep most of the risks and benefits connected with the asset and did not even transfer control of the asset, the asset is recognized should there be continuing involvement by the Company in the asset. Continuing involvement in the form of a guarantee for the asset transferred will be measured at the lower of the original book value of the asset and the maximum amount that the Company is liable to pay.

Note 2 - Significant Accounting Policies (cont'd)

7. Embedded derivatives

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

8. Complex financial instruments issued by the Company

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

E. Provision for doubtful debts

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

F. Inventory

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

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

G. Treasury stock

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

H. Impairment in value of financial instruments

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

Assets recorded at reduced costs

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

I. Leasing

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

Operative leasing

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

J. Fixed assets

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

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

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

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

Note 2 - Significant Accounting Policies (cont'd)

K. Intangible assets

Intangible assets which are purchased separately are measured on initial recognition at cost plus the direct acquisition costs. After initial recognition, intangible assets are presented at cost less accumulated amortization and less losses from any 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 posted to the statement of operations.
The useful lifespan of intangible assets is as follows:

	Years
Patents and licenses	3

L. Impairment in value of non financial assets

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

M. Government grants

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

N. Taxes on income

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

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

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

Note 2 - Significant Accounting Policies (cont'd)

N. Taxes on income (cont'd)

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

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

O. Liabilities for benefits to employees

The Group has a number of benefit plans after employment. The plans are generally financed by deposits with insurance companies and are classified as defined deposit plans and defined benefit plans.

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

2. Benefits after retirement
The Group operates a defined benefit plan for paying severance pay according to the Severance Pay Law. According to the law, employees are entitled to receive severance pay on their dismissal or retirement. The severance pay is calculated according to the employee's last monthly salary on the date of termination of employment multiplied by the number of years of employment. The Company deposits funds for liabilities to pay severance pay to some of the employees on a current basis with pension funds and insurance companies (hereinafter: "the plan's assets").
The actuarial profits or losses are posted directly to shareholders' equity.
The liability for benefits to employees presented in the balance sheet represents the present value of the defined benefit plan, less the fair value of the assets in the plan. Assets resulting from this calculation are limited to the previous cost of providing the services plus the present value of available funds and less the future amounts to be deposited in the plan.

3. Severance pay and benefits on voluntary retirement
Severance pay to employees is recorded as an expense when the Group undertook, without a real possibility of cancellation, to dismiss employees prior to their reaching the customary retirement age, according to the formal detailed plan. The benefits given to employees on voluntary retirement are recorded when the Group offered the employee a plan which encourages voluntary retirement, and it is expected that the proposal will be received and it is possible to reliably estimate the number of those responding to the offer.

P. 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.

Note 2 - Significant Accounting Policies (cont'd)

P. Recognition of revenues (cont'd)

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

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

Q. Discounts to customers

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

R. Earnings per share

Earnings 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 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.

S. Provisions

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

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

1. IFRS 8 – Operative segments

   IFRS 8 (hereinafter: "the Standard") deals with operative segments and replaces IAS 14. The Standard will apply to companies whose securities are listed, or in the process of being listed, for trading on any stock exchange. The Standard will apply regarding the annual financial statements for periods starting after January 1, 2009. The Standard may be adopted earlier. The provisions of the Standard will be applied retrospectively by way of restatement, unless the information required according to its directives is not available and it is not practical to locate it.

   The Standard stipulates that an entity will adopt the "Management approach" in reporting on the financial performance of operative segments. The segment information will be the information that management uses internally, for the purpose of evaluating performance of segments, and for the purpose of deciding the way of allocating sources to the operative segments.

Note 2 - Significant Accounting Policies (cont'd)

T. Disclosure of new IFRS during the period prior to their implementation (cont'd)

1. IFRS 8 – Operative segments (cont'd)
   Moreover, information will be provided regarding revenues resulting from the entity's products or services (or similar groups of products and services), the countries from which the revenues are obtained or the assets and main customers, and this without considering whether management uses this information for its operative decisions.
   In the Company's opinion, the effect of the new standard, on the presentation of the note regarding segments today, is not expected to be significant.

2. IAS 23 (amended) – Credit costs
   According to the amended IAS 23, it is obligatory to capitalize credit costs which relate directly to the purchase, the establishment or production of an eligible asset. An eligible asset is an asset in which a significant period of time is required to prepare it for the use it is intended, or its sale, and includes fixed assets, real estate for investment, and inventory which requires a significant period of time in order to bring it to a suitable condition for sale. The possibility to immediately record these costs as an expense has been cancelled.
   The amended Standard will apply to financial statements for the year starting January 1, 2009. Earlier implementation is possible.
   In the Company's opinion, the amended Standard is not expected to have an effect on its financial condition, results of operations and cash flows.

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

4. IAS 23 (amended) – Financial instruments: Presentation, and IAS 1 (amended) – Presentation of financial statements (hereinafter: "the Standards")
   According to the Standards, certain financial instruments which can be exercised (puttable) and liabilities created due to liquidation must be classified as capital, , and this should a number of criteria be met. Moreover, suitable disclosure is required regarding instruments which can be exercised, which are classified as capital. The new Standards will apply to annual financial statements for periods starting January 1, 2009; earlier implementation is possible.
   The effect of the Standards will require the Company to make classifications and provide such disclosure in the financial statements.

Note 2 - Significant Accounting Policies (cont'd)

T. Disclosure of new IFRS during the period prior to their implementation (cont'd)

5. IFRS 3 (amended) – Business combinations; and IAS 27 (amended) – separate and consolidated financial statements

Amended IFRS 3 and amended IAS 27 (hereinafter: "the Standards") will be applied for annual financial statements for periods starting January 1, 2010. Early application of the two Standards is possible jointly, starting from annual financial statements for periods starting January 1, 2008.

The following are the main changes expected to apply as a result of implementing the Standards:

- Today, IFRS 3 states that goodwill, contrary to the other identified assets and liabilities of the purchased company, will be measured as the surplus cost of acquisition of the purchasing company's share in the fair value of identified net assets on the purchase date. According to the Standards, it is possible to choose for every business combination transaction separately to measure goodwill on the basis of its full fair value, and not only the part purchased.
- Proceeds contingent on business combinations will be measured at fair value, where the changes in fair value of the contingent proceeds, which are not adjustments during the period of measurement to the cost of the acquisition, will not be recognized concurrently as an adjustment of goodwill. Generally, contingent proceeds will be considered a financial derivative on which IAS 39 will apply, which is presented as fair value with changes to it posted to the statement of operations.
- Costs of direct purchasing relating to a business combination transaction will be recognized to the statement of operations on their accrual, whereas the requirement up to now was to record them as part of the consideration in the cost of the business combination, was cancelled.
- A transaction with the minority, whether a sale or purchase, will be handled as a capital transaction and therefore will not result in recognition in the statement of operations or affect the amount of goodwill, respectively.
- Losses of a subsidiary, even if they result in a deficit in the subsidiary's shareholders' equity, will be divided between the parent company and the minority rights, even if the minority is not a guarantor or has no contractual obligations to support the subsidiary, or to make an additional investment in it.
- On the date of loss of control in the subsidiary, the balance of holdings, if existing, will be revalued to fair value against profit or loss from the realization and this fair value will be the basis for its cost for further treatment.

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

6. IFRS 2 (amended) – share-based payment

According to the amended IFRS 2 (hereinafter: "the Amended Standard") the definition of vesting conditions will include only service conditions and performance conditions. According to the amended Standard, the settling of granting which includes conditions which are not vesting conditions, whether by the Company or by the other party, will be handled by accelerating vesting and not by forfeiture.

The amended Standard will apply retrospectively regarding financial statements for periods starting January 1, 2009. Earlier implementation is possible.

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

Note 2 - Significant Accounting Policies (cont'd)

T. Disclosure of new IFRS during the period prior to their implementation (cont'd)

7. IFRIC 13 – Purchase benefits and customer incentives
IFRIC 13 (hereinafter: "the clarification") applies to annual financial statements for periods starting July 1, 2008 or thereafter, while adopting the comparative figures for previous periods, retrospectively. Earlier application is possible. The clarification applies to purchase benefits and customer incentives (such as club points, credit points, and purchase vouchers) which the Company grants as part of a sales transaction in order to encourage the customer to make future purchases. Subject to the existence of the entitling conditions, the customer can realize in the future the benefits and receive gratis or at a discount - a product or service.
In the Company's opinion, the adoption of the new clarification is not expected to affect its financial condition, results of operations and cash flows.

U. 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, 2008	191.33	5.6169	3.553
March 31, 2007	184.43	5.5349	4.155
December 31, 2007	191.15	5.6592	3.846
Change during the period	**%**	**%**	**%**
March 2008 (three months)	0.09	(0.75)	(7.62)
March 2007 (three months)	(0.24)	(0.54)	(1.66)
December 2007 (12 months)	3.40	1.71	(8.97)

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

V. 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, 2008 (EURO 1 = NIS 5.6169).

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 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,
	2008	2008	2007	2007
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro	NIS		
Products	2,881	16,183	13,060	60,041
System integration projects	346	1,944	14,451	41,528
Other	27	149	151	699
	3,254	18,276	27,662	102,268

B. Segment results

Products	1,128	6,335	3,487	16,788
System integration projects	(325)	(1,825)	1,848	971
Other	(2)	(12)	(56)	58
Unallocated corporate expenses	(416)	(2,333)	(2,426)	(8,204)
Operating profit	385	2,165	2,853	9,613

Note 4 - Adjustment between Israeli GAAP and International Financial Reporting Standards (IFRS)

As described in Note 1A, these interim consolidated financial statements are the first interim financial statements prepared according to the International Financial Reporting Standards (IFRS). The Company first adopted the IFRS in 2008; therefore the transition date for reporting in accordance with IFRS is January 1, 2007. The company prepared opening balance sheet for the transition date, from which it started reporting in accordance with IFRS.

Prior to the adoption of IFRS, the financial statements were prepared according to Israeli GAAP. The last interim financial statements according to Israeli GAAP was prepared as at September 30, 2007 and for the nine months period then ended. The first annual financial statements according to the IFRS will be as at December 31, 2008 and for the year then ended.

Accordingly the Company presents the following reconciliation between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS as at January 1, 2007 (the transition date for reporting in accordance with IFRS), as at December 31, 2007 and for the year then ended and as at March 31, 2007 and for the three month period then ended.

IFRS 1 states that the adoption of the IFRS in the opening balance sheet on the transition date will be done retrospectively.

The following are the exemptions the Company chose under IFRS 1 and for which the Company does not retrospectively adopt the transition to reporting in accordance with IFRS:

Translation differences from foreign operations

Translation differences, which occurred before the transition date, from foreign operations were not accumulated; therefore, the capital reserve from translation adjustments, resulting from the translation of financial statements of foreign operations, as at January 1, 2007, is zero.

Share-based payment

International Financial Reporting Standard No. 2, which deals with share-based payment transactions, will not be implemented regarding capital instruments granted and which were vested prior to the transition date.

Allocation of financial instruments recognized in the past

On January 1, 2007, the Company has allocated financial instruments (which comply with certain conditions according to IAS 39 (which deals with the recognition and measurement of financial instruments) to a group of financial assets measured at their fair value through profit and loss, as no such allocation was done on the initial date of recognition (i.e. on the date of purchase the financial assets).

A. The following are the balance sheet reconciliations between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS:

		January 1, 2007 (Consolidated)		
Notes		Israeli GAAP	Reconciliations	IFRS
			(NIS, in thousands)	
	Current assets			
	Cash and cash equivalents	39,906	-	39,906
	Marketable securities	30,390	-	30,390
	Accounts receivable -			
4	Trade	15,675	5	15,680
1	Other	566	69	635
4	Inventory	13,663	(45)	13,618
	Inventory - work in progress	194	-	194
		100,394	29	100,423
	Non current assets			
	Long-term deposits	339	-	339
1,4	Property and equipment	22,019	(3,481)	18,538
1	Other assets, net	750	3,141	3,891
		23,108	(340)	22,768
	Total assets	**123,502**	**(311)**	**123,191**
	Current liabilities			
	Current maturities of long-term liabilities	11,720	-	11,720
	Accounts payable -			
	Trade	12,112	-	12,112
7	Other	11,444	385	11,829
2b	Warrants	-	1,829	1,829
8	Embedded derivatives	-	103	103
		35,276	2,371	37,593
	Long-term liabilities			
	Long-term loans	9,978	-	9,978
2a	Conversion option of convertible bonds	-	1,003	1,003
2a,2c	Convertible bonds	25,331	(584)	24,747
	Bonds	29,859	-	29,859
3	Accrued severance pay, net	1,628	(1,135)	493
		66,796	(716)	66,080
	Shareholders' equity	21,430	(1,912)	19,518
	Total liabilities and shareholders' equity	**123,502**	**(311)**	**123,191**

Note 4 - Adjustment between Israeli GAAP and International Financial Reporting Standards (IFRS) (cont'd)

A. The following are the balance sheet reconciliations between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS: (cont'd)

Notes		March 31, 2007 (Consolidated) Israeli GAAP	Reconciliations	IFRS
		(NIS, in thousands)		
	Current assets			
	Cash and cash equivalents	6,952	-	6,952
	Marketable securities	54,354	-	54,354
	Accounts receivable -			
4	Trade	26,687	5	26,692
1	Other	1,712	69	1,781
	Inventory	12,184	-	12,184
	Inventory - work in progress	752	-	752
		102,641	74	102,715
	Non current assets			
	Long-term deposits	382	-	382
1,4	Property and equipment	(*)22,595	(3,484)	19,111
1	Other assets, net	(*)2,532	3,124	5,656
		25,509	(360)	25,149
	Total assets	**128,150**	**(286)**	**127,864**
	Current liabilities			
	Current maturities of long-term liabilities	11,877	-	11,877
	Accounts payable -			
	Trade	13,328	-	13,328
7	Other	13,600	385	13,985
2b	Warrants	-	1,527	1,527
8	Embedded derivatives	-	233	233
		38,805	2,145	40,950
	Long-term liabilities			
	Long-term loans	9,599	-	9,599
2a	Conversion option of convertible bonds	-	657	657
2a,2c	Convertible bonds	25,112	(509)	24,603
	Bonds	30,042	-	30,042
3	Accrued severance pay, net	1,762	(1,077)	685
		66,515	(929)	65,586
	Shareholders' equity	22,830	(1,502)	21,328
	Total liabilities and shareholders' equity	**128,150**	**(286)**	**127,864**

A. The following are the balance sheet reconciliations between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS: (cont'd)

Notes		December 31, 2007 (Consolidated)		
		Israeli GAAP	Reconciliations	IFRS
			(NIS, in thousands)	
	Current assets			
	Cash and cash equivalents	16,085	-	16,085
	Marketable securities	38,617	-	38,617
	Accounts receivable -			
4	Trade	13,995	-	13,995
1	Other	180	69	249
4	Inventory	12,981	(1)	12,980
	Inventory - work in progress	319	-	319
		82,177	68	82,245
	Non current assets			
	Long-term deposits	444	-	444
1,4	Property and equipment	22,217	(3,493)	18,724
1	Other assets, net	8,415	3,072	11,487
		31,076	(421)	30,655
	Total assets	**113,253**	**(353)**	**112,900**
	Current liabilities			
	Current maturities of long-term liabilities	11,755	-	11,755
	Accounts payable -			
	Trade	12,630	-	12,630
7	Other	7,856	374	8,230
2b	Warrants	-	211	211
8	Embedded derivatives	-	-	-
		32,261	585	32,846
	Long-term liabilities			
	Long-term loans	8,578	-	8,578
2a	Conversion option of convertible bonds	-	1	1
2a,2c	Convertible bonds	15,936	(327)	15,609
	Bonds	30,941	-	30,941
3	Accrued severance pay, net	1,546	(1,385)	161
		57,001	(1,711)	55,290
	Shareholders' equity	23,991	773	24,764
	Total liabilities and shareholders' equity	**113,253**	**(353)**	**112,900**

Note 4 - Adjustment between Israeli GAAP and International Financial Reporting Standards (IFRS) (cont'd)

B. The following are the reconciliations to statement of operations between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS

Notes		For the three month period Ended December 31, 2007 (consolidated)		
		Israeli GAAP	Reconciliations	IFRS
		(NIS, in thousands)		
8	Revenues	27,632	30	27,662
7	Cost of revenues	19,429	(8)	19,421
	Gross profit	8,203	38	8,241
	Development expenses, net	465	-	465
	Selling & marketing expenses	3,092	-	3,092
1,3,6	General & administrative expenses	1,742	89	1,831
	Operating profit	2,904	(51)	2,853
2a,2b,5	Financing income	-	(1,071)	(1,071)
2a,4,5,8	Financing expenses	1,504	554	2,058
	Profit for the year	1,400	466	1,866
	Profit per 1 ordinary share NIS 0.02 par value	0.122	0.040	0.162

Notes		For the year ended December 31, 2007 (consolidated)		
		Israeli GAAP	Reconciliations	IFRS
		(NIS, in thousands)		
8	Revenues	102,353	(85)	102,268
7	Cost of revenues	70,787	78	70,865
	Gross profit	31,566	(163)	31,403
	Development expenses, net	1,562	85	1,647
	Selling & marketing expenses	13,502	65	13,567
1,3,6	General & administrative expenses	6,682	(106)	6,576
	Operating profit	9,820	(207)	9,613
2a,2b,5	Financing income	-	(4,695)	(4,695)
2a,4,5,8	Financing expenses	7,046	1,604	8,650
	Profit for the year	2,774	2,884	5,658
	Profit per 1 ordinary share NIS 0.02 par value	0.250	0.261	0.511

C. The following are the adjustments of items in the statement of changes of shareholders' equity between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS

1. <u>Accumulated losses</u>

	Note	NIS, in thousands
Accumulated loss - as presented in the financial statements as at January 1, 2007 in accordance with Israeli GAAP		(26,108)
Amortization of prepaid leasing expenses	1	(261)
Benefits to employees	3	1,135
Liability to the Chief Scientist for government grants	7	(385)
Adjustments resulting from the translation of financial statements of foreign operations	4	(50)
Fair value of the conversion option from convertible bonds presented as a liability, and in the past presented in shareholders' equity	2a,2c	(1,992)
Reevaluation to fair value of warrants presented as a liability, and in the past presented in shareholders' equity	2b	(691)
Reevaluation of embedded derivatives to fair value	8	(103)
Share-based payments	6	(268)
Accumulated loss - as presented in the financial statements as at January 1, 2007 in accordance with IFRS		(28,723)
Accumulated loss - as presented in the financial statements as at March 31, 2007 in accordance with Israeli GAAP		(24,708)
Amortization of prepaid leasing expenses	1	(278)
Benefits to employees	3	1,077
Liability to the Chief Scientist for government grants	7	(385)
Adjustments resulting from the translation of financial statements of foreign operations	4	(62)
Fair value of the conversion option from convertible bonds presented as a liability, and in the past presented in shareholders' equity	2a,2c	(1,597)
Reevaluation to fair value of option warrants presented as a liability, and in the past presented in shareholders' equity	2b	(389)
Reevaluation of embedded derivatives according to fair value	8	(233)
Share-based payments	6	(282)
Accumulated loss - as presented in the financial statements as at March 31, 2007 in accordance with IFRS		(26,857)

Note 4 - Adjustment between Israeli GAAP and International Financial Reporting Standards (IFRS) (cont'd)

C. The following are the adjustments of items in the statement of changes of shareholders' equity between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS (cont'd)

1. Accumulated losses (cont'd)

	Note	NIS, in thousands
Accumulated loss - as presented in the financial statements as at December 31, 2007 in accordance with Israeli GAAP		(23,334)
Amortization of prepaid leasing expenses	1	(330)
Benefits to employees	3	1,385
Liability to the Chief Scientist for government grants	7	(374)
Adjustments resulting from the translation of financial statements of foreign operations	4	560
Fair value of the conversion option from convertible bonds presented as a liability, and in the past presented in shareholders' equity	2a,2c	(1,246)
Reevaluation to fair value of option warrants presented as a liability, and in the past presented in shareholders' equity	2b	927
Reevaluation of embedded derivatives according to fair value	8	-
Share-based payments	6	(312)
Accumulated loss - as presented in the financial statements as at December 31, 2007 in accordance with IFRS		(22,724)

2. Receipts on account of warrants and conversion options

	Note	NIS, in thousands
Balance as presented in the financial instruments as at January 1, 2007 in accordance with Israeli GAAP		1,373
Classification of conversion option from convertible bonds liability	2a	(235)
Classification of option warrants to liability	2b	(1,138)
Balance as presented in the financial statements as at January 1, 2007 in accordance with IFRS		-
Balance as presented in the financial instruments as at March 1, 2007 in accordance with Israeli GAAP		1,373
Classification of conversion option from convertible bonds liability	2a	(235)
Classification of option warrants to liability	2b	(1,138)
Balance as presented in the financial statements as at March 1, 2007 in accordance with IFRS		-
Balance as presented in the financial statements as at December 31, 2007 in accordance with generally accepted accounting standards in Israel		1,314
Classification of conversion option from convertible bonds to liability	2a	(176)
Classification of option warrants to liability	2b	(1,138)
Balance as presented in the financial statements as at December 1, 2007 in accordance with IFRS		-

Note 4 - Adjustment between Israeli GAAP and International Financial Reporting Standards (IFRS) (cont'd)

C. The following are the adjustments of items in the statement of changes of shareholders' equity between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS (cont'd)

3. <u>Share premium</u>

	Note	**NIS, in thousands**
Balance as presented in the financial instruments as at January 1, 2007 in accordance with Israeli GAAP		48,442
Adjustment of premium according to the allocation of components of the parcel of financial instruments	2c	1,808
Balance as presented in the financial statements as at January 1, 2007 in accordance with IFRS		50,250
Balance as presented in the financial instruments as at March 31, 2007 in accordance with Israeli GAAP		48,442
Adjustment of premium according to the allocation of components of the parcel of financial instruments	2c	1,808
Balance as presented in the financial statements as at March 31, 2007 in accordance with IFRS		50,250
Balance as presented in the financial instruments as at December 31, 2007 in accordance with generally accepted accounting standards in Israel		48,501
Adjustment of premium regarding to the conversion option of paid convertible bonds	2a	59
Adjustment of premium according to the allocation of the components of the parcel of financial instruments	2c	1,808
Balance as presented in the financial statements as at December 31, 2007 in accordance with IFRS		50,250

Note 4 - Adjustment between Israeli GAAP and International Financial Reporting Standards (IFRS) (cont'd)

C. The following are the adjustments of items in the statement of changes of shareholders' equity between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS (cont'd)

4. Capital reserves

	Note	Capital reserve from share-based payment transactions	Capital reserve from translation of foreign operations	Total
		NIS, in thousands		
Balance as presented in the financial statements as at January 1, 2007 in accordance with generally accepted accounting standards in Israel		11	-	11
Cost of share-based payment	6	268	-	268
Balance as presented in the financial statements as at January 1, 2007 in accordance with IFRS		279	-	279
Balance as presented in the financial statements as at March 31, 2007 in accordance with generally accepted accounting standards in Israel		11	-	11
Cost of share-based payment	6	282	-	282
Adjustments resulting from translation of financial statements of foreign operations	4	-	(70)	(70)
Balance as presented in the financial statements as at March 31, 2007 in accordance with IFRS		293	(70)	223
Balance as presented in the financial statements as at December 31, 2007 in accordance with generally accepted accounting standards in Israel		11	-	11
Cost of share-based payment	6	312	-	312
Adjustments resulting from translation of financial statements of foreign operations	4	-	(584)	(584)
Balance as presented in the financial statements as at December 31, 2007 in accordance with IFRS		323	(584)	(261)

Note 4 - Adjustment between Israeli GAAP and International Financial Reporting Standards (IFRS) (cont'd)

D. Notes to the adjustments to the financial statements, between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS

1. Leasehold rights in land from the Israel Lands Administration

According to the agreement for the acquisition of rights dated July 23, 2000, with Airport City Ltd. (hereinafter: "APC"), the Company was granted capitalized leasehold rights (91%) on the ground floor (with a basement), and the first floor in the building called Unitronics House for 49 years from the date of approval of the transaction by the government (Minhal). For this acquisition, the Company paid an amount of NIS 3,471 thousand.

According to Israeli GAAP, these amounts paid for the leasehold rights were presented in the framework of fixed assets, as non depreciable land.

According to IFRS, this leasing is classified in accordance with IAS17 - "leasing" as operating lease and therefore the amounts paid are prepaid leasing fees.

On the transition to reporting in accordance with IFRS, as at January 1, 2007, the amounts in the fixed assets are classified and presented in the framework of other assets and deferred expenses, net, and amortized over the period of use of the rights, i.e. 49 years. The balance of the prepaid expenses for operating lease, as at January 1, 2007, stands at NIS 3,210 thousand (NIS 69 thousands of which short-term prepaid expenses were classified to other receivables). The balance of fixed assets on that date decreased by NIS 3,471 thousand. The net difference of NIS 261 thousand was booked to retained earnings.

The effect of reporting in accordance with IFRS of amortizing the operating lease for the year ended December 31, 2007 and for the three month period ended March 31, 2007 amount to NIS 69 thousands and NIS 17 thousands, respectively.

2. Warrants, convertible bonds and allocating the consideration on the issue of a parcel

a. Convertible Bonds

In May 2004, the Company issued bonds convertible to ordinary shares of the Company, where the conversion price is linked to the exchange rate of the dollar. According to the transitory directives of Israel Accounting Standard No. 22 (hereinafter: "Standard 22) of the Israel Accounting Standards Board - "Financial Instruments: Disclosure and Presentation", these bonds are complex financial instruments including a liability component and a capital component. Accordingly, the proceeds received from the issue of the bonds were split into these components according to the provisions of Standard 22.

According to IAS 32 - "Financial Instruments: Presentation", as the conversion component is linked to the exchange rate of the dollar and is not fixed in shekel terms (the Company's functional currency), it is a financial liability and not a capital component. The conversion component is measured according IAS 39 - "Financial Instruments: Recognition and Measurements", on the basis of its fair value, where the changes of the fair value of this component are recorded in the statement of operations each period.

Note 4 - Adjustment between Israeli GAAP and International Financial Reporting Standards (IFRS) (cont'd)

D. Notes to the adjustments to the financial statements, between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS (cont'd)

2. Warrants, convertible bonds and allocating the consideration on the issue of a parcel (cont'd)

   b. Warrants
   According to Israeli GAAP, in accordance with the provisions of Standard 22 of the Israel Accounting Standards Board, a consideration of NIS 1,138 thousand was allocated to warrants, where the exercise addition is linked to the dollar, are presented in the framework of the Company's share capital.

   According to IAS 32 - "Financial Instruments: Presentation", these warrants are financial liabilities as the exercise addition for them is not fixed and, therefore, are presented in the framework of liabilities. The measurement of the liabilities is according to IAS 39 ""Financial Instruments: Recognition and Measurements"; therefore, the warrants are presented at their fair value on every balance sheet date, while the change in fair value are recorded in the statement of operations.

   c. Issue of a parcel
   According to Israeli GAAP, based on the provisions of Standard 22 of the Israel Accounting Standards Board, the Company, at the time of the issue of a parcel which includes shares, warrants and bonds, split the consideration from the issue according to the ratio of the components' value of the parcel, according to the average of the three trading days after the date of the issue.

   On the transition to reporting in accordance with IFRS, in accordance with IAS 32 - "Financial Instruments: Presentation", at the time of the issue of the said parcel, the proceeds from the issue were first related to financial liabilities which are periodically measured at their fair value and, thereafter, to financial liabilities measured on the date of first recognition only, at fair value, and the value related to the shares component is considered as a capital instrument and calculated as at its residual value.

On the transition to reporting in accordance with IFRS, as at January 1, 2007, the liabilities presented as convertible bonds decreased by NIS 584 thousand, the premium increased by NIS 1,808 thousands, the capital component relating to this instrument, in accordance with Standard 22 of NIS 235 thousand was cancelled and a liability for the liability component of the conversion option of NIS 1,003 thousand was created according to the fair value of the conversion option at that time. The net difference of NIS 1,992 thousands was booked to retained earnings.

In addition, the proceeds for the warrants of NIS 1,838 thousand, included in the framework of shareholders equity, was recognized as a short-term liability of NIS 1,829 thousand which represents the fair value of the warrants on the transition date. The net difference of NIS 691 thousand was booked to retained earnings.

In effect of reporting in accordance with IFRS of reevaluation the conversion option to fair value for the year ended December 31, 2007 and for the three month period ended March 31, 2007 amount to NIS 1,002 thousands and NIS 346 thousands, respectively.

In effect of reporting in accordance with IFRS of reevaluation the warrants to fair value for the year ended December 31, 2007 and for the three month period ended March 31, 2007 amount to NIS 1,618 thousands and NIS 602 thousands, respectively.

Note 4 - Adjustment between Israeli GAAP and International Financial Reporting Standards (IFRS) (cont'd)

D. Notes to the adjustments to the financial statements, between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS (cont'd)

3. Benefits to employees

According to Israeli GAAP, liabilities for severance pay are measured on the basis of the product of the number of years of work and the last month salary of the employee for each balance sheet date in accordance with the 'shut-down' method, and the funded amount for severance pay is measured according to redemption value on every balance sheet date.

According to IAS 19 - "Benefits to Employees", the Company's severance pay program is considered as a defined benefit program; therefore, the liability for severance pay must be presented on an actuarial basis. The actuarial calculation takes into account future wage increases and the rate of employees leaving, and this on the basis of evaluating the timing of the payment.

The amounts are presented on the basis of the discounting of future expected cash flows method, according to rates of interest of NIS government bonds (according to the company's opinion there is no market, which have a sufficient trade volumes, in order to enable to determine a proper capitalization rates), whose due date is close to liabilities relating to severance pay. Moreover, the assets for benefits for employees are measured at their fair value. The measurement difference, as at January 1, 2007, of NIS 1,135 thousands was booked to retained earnings.

The company recognized actuarial profits of NIS 341 thousands to the retained earnings in the year ended December 31, 2007.

The company implements the alternative of recognizing all actuarial profits (losses) directly to the retained earnings, because this method reflects the fair value of the net liabilities to the employees as at the balance date. In addition, according to this method, the statements of operations reflect fairly the results of operation by preventing volatility from actuarial profits (losses).

4. Functional currency

According to Israeli GAAP, the currency in which the financial statements of the subsidiary in Israel are measured is the NIS. The subsidiary which is located and operates in the U.S. is, according to Israeli GAAP, a long arm; therefore, the translation differences resulting from the translation of financial statements of the subsidiary have been booked to the statement of operations (in the 'financing expenses').

According to IAS 21 - "the Effect of Changes in the Rates of Exchange of Foreign Currency", the Company is required to determine its functional currency, and of each of the companies in the Group, according to the currency of the main economic environment in which each of them operates, and this according to the criteria set forth in IAS 21. The Company's management came to the conclusion that the Company's functional currency, and that of its subsidiary in Israel, is the NIS. The functional currency of the subsidiary located and operating in the U.S. is the US dollar.

Furthermore, the Company's management chose the NIS as the presentation currency of the Group's consolidated financial statements.

On the transition to reporting in accordance with IFRS, as at January 1, 2007, the Company re-measured, according to the provisions of IAS 21, the assets and liabilities of the subsidiary in the U.S., in dollars, and this instead of measuring them in NIS. The effects of the translation of balances from its functional currency (USD) to the presentation currency (NIS) of the balances presented in the consolidated balance sheets as at January 1, 2007, totaled to NIS 50 thousands, witch booked to the retained earning.

The Company chose, in accordance with the provisions of IFRS 1, not to accumulate translation differences as at January 1, 2007.

Note 4 - Adjustment between Israeli GAAP and International Financial Reporting Standards (IFRS)

D. Notes to the adjustments to the financial statements, between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS (cont'd)

5. Financing income and expenses

According to Israeli GAAP, financing income and expenses were presented, net, in the statement of operations. According to IFRS, financing income and financing expenses should be presented separately in the statement of operations and, therefore were presented separately for the year ended December 31, 2007 and for the three month period ended March 31, 2007 financing expenses of NIS 8,650 thousands and NIS 2,058 thousands respectively and financing income of NIS 4,695 thousands and NIS 1,071 thousands respectively.

6. Share based payments

According to the provisions of Accounting Standard No. 24 of the Israel Accounting Standards Board - "Share-based Payments", the Company recognized, in accordance with the transitory provisions determined for that, the exemption for grants to employees only regarding share based payment transactions and settled with capital instruments, made after March 15, 2005, and which were not yet vested as at January 1, 2006.

On the transition to reporting in accordance with IFRS, the Company implements IFRS 2 - "Share-Based Payments", which stipulates also regarding grants of such capital instruments carried out prior to March 15, 2005, but after November 7, 2002, and which have not yet been vested as at January 1, 2007, that a financial measurement of the benefit must be made.

Accordingly, in the balance sheet of January 1, 2007, an amount of NIS 268 thousand was booked to retained earnings against an increase in the "reserve from share based payments transactions" included in the Company's shareholders' equity. Moreover, for these capital instruments, during 2007 the Company recognized additional wage expenses of NIS 44 thousand, in the framework of general and administrative expenses, against an increase in the "reserve from share based payments transactions" included in the Company's shareholders' equity.

7. Liability to the Chief Scientist for government grants

According to Israeli GAAP, the grants of the Chief Scientist are recorded as revenues (a reduction of an expense) on the date of their receipt. The royalties are a repayment of the grant and are recorded to cost of sales on the date of the actual payment.
On the transition to reporting in accordance with IFRS, and according to IAS 37 - "Contingent Liabilities", the grants of the Chief Scientist received will be recognized as a liability to the extent expected that the amount will be repaid. This liability is recognized at its present value. The amount of the liability is examined during every reporting period with the changes being posted to the statement of operations. As a result, as at January 1, 2007, March 31, 2007 and December 31, 2007, the liability to the Chief Scientist increased against retained earnings by NIS 385 thousands, NIS 385 thousands and NIS 374 thousand, respectively.

8. Embedded derivatives

The Company has transactions for the system integration projects partly linked to the USD/Euro, which is not the functional currency of any of the parties to the transaction. According to Israeli GAAP, these transactions are handled as one group and are not separated into their components. The amounts of the transactions (including exchange rate differences for them) are recorded at the time of their accrual to the statement of operations. In accordance with the provisions of IAS 39 - "Financial Instruments: Recognition and Measurement", these transactions are considered transactions which include embedded derivatives which must be separated from the host contract (Sales transaction) not including transactions linked to the USD which signed before December 31, 2006 which considered as transactions in commonly used currency according to IAS39 - paragraph AG33(d). The embedded derivatives, as mentioned, should be separated from the sales transactions and measured separately on the balance sheet date, according to their fair value. The changes in the fair value of the embedded derivatives, so separated, will be recorded periodically in the statement of operations.
On the transition to reporting in accordance with IFRS, as at January 1, 2007, the embedded derivatives have been measured, in the sale transactions linked to the Euro mentioned above, at their fair value. The amounts of fair value of these embedded derivatives, which on the said date total a liability of NIS 103 thousand, are recorded on the transition to IFRS on this date against retained earnings.