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

Quarterly Report for 30th September 2007

Contents

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CHAPTER 1 – PREFACE

1. General

Company name:	Unitronics (1989)(R.G.) Ltd. (hereinafter: the **"Company"**or **"Unitronics"**)
Company number:	520044199
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2. Description of the company and its business environment

Unitronics, via its Products Department, in involved in the design, development, manufacture, marketing and sales of industrial automation products, mainly PLC's – Programmable Logic Controllers (hereinafter: **"controllers"**). Controllers are computer-based electronic products (hardware and software) used in the control and supervision of machines performing automatic tasks such as production systems, automatic storage systems, retrieval and industrial logistics. The Company is also involved, via its Systems Department, in the design, construction and maintenance of services within the framework of automation, computerization and integration of computerized production systems and/or industrial logistics systems, mainly automated warehouses, automated distribution centers and automated parking facilities.

The Company's controllers are distributed via more than 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 case, also outside Israel.

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

The Company's shares have been traded since May 2004 on the Tel Aviv Stock Exchange, and since September 1999 on the Belgian Stock Exchange (first on the EuroNM Stock Exchange and since the year 2000 on the EuroNext Stock Exchange in Brussels, Belgium).

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

Changes in the Company's Board of Directors

On 13th April 2007, Mr. Haim Shani, the Company's CEO ceased serving as Chairman of the Board of Directors (for details see the Immediate Report concerning a Senior Officer that Ceased to hold office , dated April 15, 2007), and Mrs. Bareket Shani, who served as a director and an officer in the Company was appointed, at that time, as Chairman of the Board of Directors. Mrs. Bareket Shani is Mr. Haim Shani's wife (for details see Immediate Report concerning a senior office holder that ceased to hold office, dated April 15, 2007). On July 3, 2007, Mrs. Bareket Shani ceased serving as Chairman of the Board of Directors (for details see Immediate Report concerning a senior office holder that ceased to hold office, dated July 3, 2007), and Mr. Haim Shani who serves as CEO of the Company was appointed on that date to also serve as the Chairman of the Board of Directors for a period of 3 years (for details see Immediate Report concerning the appointment of a senior officer (excluding the appointment of a director and excluding an individual appointed on behalf of a corporation), dated July 3, 2007). This resolution was approved in a General Meeting of the Company's Shareholderson July 3, 2007 (for details, see Section 1 of the Immediate report concerning the results of an annual general meeting of the Company's shareholders, published on July 3, 2007).

Payment for the Unitronics Debenture (Series 1) and the Euronext Bond

On May 24, 2007 the Company executed the first of four payments of the principle of the Unitronics Debentures (Series 1), in accordance with the Prospectus published on May 12, 2004 (for details see Amendment Report dated May 24, 2007 which amended the Immediate Report concerning an event exceptional to the Company's ordinary course of business published on that date). On November 23, 2007, the Company paid an interest installment in respect of this debenture. Up until November 5, 2007, the Company paid 7 out of the 10 payments of principle and interest in respect of the EuroNext debentures (for details, see the Immediate Report concerning the seventh payment of debentures (Series 5/04) dated November 23, 2007).

Buybacks of Company Shares

Beginning August 2005 the Company carries out, from time to time, buybacks of ordinary shares of the Company, within the framework of trade on the Tel-Aviv Stock Exchange and within the framework of trade eon the EuroNext Stock Exchange in Belgium. As of November 7, 2007, the Company holds a total of 612,969 shares, which were purchased as aforementioned (of 11,676,546 ordinary shares that exist in the outstanding share capital of the Company). As long as the Company owns these shares, they are "dormant shares", as the term is defined in the Israeli Companies Law, 5759-1999. For additional details on the matter of these purchases see immediate reports published by the Company from time to time in connection with such purchases, since August 18, 2005.

Change in the method of calculating the interest on the Series 1 debenture

On 24th May 2007 the Company published an Immediate Report that Deloitte Touche (Israel) Brightman Almagor Trustees Ltd (hereinafter: the "Trustee"), which acts as the Trustee for the Unitronics Debentures (Series 1) issued by the Company under the Prospectus dated May 12, 2004 (hereinafter: the "Debentures"), notified the Company that in a routine sample testing carried out by him, regarding the method of calculation of the interest on the Debentures, in his opinion, the rate of interest should be calculated not in the manner calculated by the Company (effective interest) (hereinafter: the “previous interest"), but on a nominal interest basis.

Whilst the Company is of the opinion that its interpretation until May 2007 as to the method of calculation of the rate of interest was a reasonable interpretation, and taking into account that the adoption of the Trustee's opinion entail amounts which are not material to the Company, the Company decided to adopt the Trustee's opinion, and to change the method of calculation of the interest in a manner that would benefit the holders of the debenture, and to calculate it on a nominal basis at the rate of the variable annual LIBOR interest (as defined in the aforementioned Prospectus) plus 2.5% per annum. The interest will be linked to the NIS/US dollar exchange rate.

Thus, commencing May 24, 2007 the rate of interest is being calculated in the said new manner, including for the period commencing May 23, 2007.

Regarding previous periods in respect of which interest payments had been made in the past, according to the previous calculation, the Company is continuing its discussions and consultations with the relevant entities, including the Trustee, in order to reach an agreed arrangement for the payment of differences to the Debenture holders for the dates preceding the above change and in connection thereto, if any.

Resolutions regarding an external director, Mr. Moshe Bra'az

The General Meeting of the Company’s shareholders on July 3,July 2007 approved the resolutions of the Board of Directors from March 25, 2007 regarding Mr. Moshe Bra'az, and external director of the Company, regarding granting him indemnification in accordance with the indemnification provisions under the Company’s Articles of Incorporation, the inclusion of Mr. Bra'az in the insurance coverage for the Company’s directors and officers, and also approval of granting annual remuneration and participation remuneration (for details see the Amended Report dated March 31, 2007 for the Immediate Report concerning the grant of an indemnity letter to an “office holder” dated March 26, 2007, the Amended Report dated April 15, 2007 for the Immediate Report concerning the grant of indemnity letter to an “office holder” dated March 31, 2007, and Sections 2 and 3 to the Immediate Report concerning the results of the General Meeting of the Company’s shareholders dated July 3, 2007).

Legal proceedings

Robotic dispute

As detailed in the Section 1.20.1 of the Periodical Report for 2006, Robotic Parking Ltd.(hereinafter: "Robotic") filed an amended lawsuit (as continuance of the original lawsuit from June 2006) against the City of Hoboken, New Jersey, USA and its senior officials regarding the automated parking system which had been installed a few years earlier by Robotic. The amended lawsuit added Unitronics and Unitronics Inc. as additional defendants, *inter alia, in* respect of violation of patents and intellectual property rights, causing breach of contract and defamation. According to the terms of the agreements between the Hoboken Municipality and Unitronics, the Municipality undertook, *inter alia*, to indemnify Unitronics for any damage that may be caused to it following the Robotic lawsuit.

This dispute was settled by compromise. The principles of the compromise: mutual withdrawal from existing and/or future claims and allegations in connection with said dispute, without payment of compensation. The compromise agreement was signed by the parties on July 17, 2007 and received the validity of a court ruling by a US court on July 20, 2007.

Dispute with IMO

As was set forth in Section 1.20.1 of the 2006 Periodical Report, discussions were held between the parties with an intent of settling the dispute by way of compromise. The principles of the compromise: all the parties are to waive all their claims including the claims of IMO against the new Unitronics distributor in France. In light of the agreements reached by the parties, the court in Israel decided on February 25, 2007 and March 1, 2007 to dismiss all the aforementioned claims. At the same time, petitions were submitted to the French courts to bring the proceedings there to an end. On September 14, 2007 the court in France ruled to dismiss all claims of the parties and to cancell all proceedings, thereby bringing to an end all proceedings in this case, subject to the receiving of a non material payment from IMO in connection with the compromise.

Dispute with Samy Gharb

In January 2006, the Company, via its legal council in the USA, filed a lawsuit to the US Federal Court against a private individual, who had approached the Company and a number of its distributors in the USA and in Europe, claiming that they were in breach of his registered patent, by marketing the Company's products. In the lawsuit, Unitronics requested the court to declare that the patent registered in the USA is invalid, and that Unitronics' activities do not entail any breach of property rights of the defendant. In addition, Unitronics claimed from the defendant an amount of not less than one million dollars with respect to damages caused by him as a result of the defendant's activities, in particular with respect to approaches made by him to Unitronics' distributors in the USA. The defendant did not submit a statement of defense within the required time limit, but sent a letter of response to the court, which decided to regard the said letter as a response and as a statement of defense. In view of this, and despite the request of the Company to find in its favor (in view of non-submission of a defense), the court ruled that proceedings should continue. At a telephone conference held on June 2, 2006 it was decided that the case would proceed to the stage of discovery of documents and details. At a further telephone conference held on November 3, 2006, the defendant was required to submit documents and details in an orderly manner, until December 20, 2006. Approaching the target date, the defendant sent a letter to the court in German. On December 22, 2006 the court ruled that translation services, on behalf of the court, were not available in civil cases and that the defendant should have his letter translated into English no later than January 22, 2007. The defendant submitted a number of documents after that date. On February 1, 2007 Unitronics submitted its response, in which it submitted that the documents provided by the Defendant do not prevent the Court from upholding the Unitronics' claims.

On September 25, 2007, the court issued an interim ruling regarding some of the claims of the parties, accepting Unitronics' position and stating that **Unitronics was not in breach of the defendant's patent in question.** In addition, **the court dismissed the counter-claims made by the defendant against Unitronics.** Regarding the admissibility of the defendant's registered patent, judgment has yet to be given.

On October 24, 2007, the defendant submitted a document to the court, which was classified as a "Motion for Reconsideration".

On November 1, 2007, the Company filed a number of lawsuits against the Defendant, mainly claiming that the US court prohibit Gharb from interfering in the contractual relations between the Company and its customers and suppliers, and that the Company's request for invalidity of Gharb's patent will be without prejudice, in addition to petitioning the court to refrain from upholding Gharb's motion for reconsideration.

The parties are waiting for the court's ruling on the Company's abovementioned petitions.

Chapter 2 – The Board of Directors Report

1. Financial situation:

Commencing on January 1, 2007 the Company has implemented Accounting Standard Number 30 regarding intangible assets (hereinafter: Standard 30) of the Israel Accounting Standards Board. The Standard explains the accounting treatment of intangible assets and defines their mode of measurement of value, detailing also the disclosure required pursuant to the transitional provisions of the Standard.

The adoption of the Standard is carried out by way of retroactive implementation, except as set forth below: regarding the acquisition of businesses, the Standard will be implemented only with respect to businesses acquired commencing January 1, 2007 and thereafter, and in the case of a research and development project in progress which was acquired as a result of the acquisition of businesses taking place prior to January 1, 2007 and fulfilling the definition of an intangible asset at the date of acquisition and applied as an expense at the date of acquisition, the Company will recognize on January 1, 2007 the research and development project in progress as an asset whilst apportioning taxes accordingly. The Standard states that an intangible asset will be recognized if, and only if, it is expected that the future economic benefits, which are attributable to the asset, will flow to the entity, and that the cost of the asset can be reliably measured.

A research and development asset will be recognized according to the amount estimated at the date of acquisition, less depreciation that would have accrued if it had been depreciated from the date of acquisition up to December 31, 2006 in accordance with the useful lifetime of the asset and less accrued losses from decrease in value. The adjustment amount is applied to the surpluses balance as of January 1, 2007.

As previously mentioned, commencing January 1, 2007 the Company implements the provisions of Standard 30 with respect to development costs in respect of which the conditions for recognition as an intangible asset are fulfilled in accordance with the provisions of the Standard. For additional details about the Standard and its mode of implementation, see Note 2d(4) in Chapter 3 (financial statements).

Assets

The total assets according to the Company's consolidated balance sheet on September 30, 2007 decreased to approximately NIS 119,987 thousand compared to approximately NIS 123,502 thousand on December 31, 2006. The decrease was mainly due to a reduction in the cash, cash equivalents, tradable securities and inventory items, offset by an increase in trade receivable, fixed assets and other assets, as detailed below.

A decrease was recorded in cash, cash equivalents and marketable securities was recorded, amounting to approximately NIS 48,573 thousand on September 30, 2007, compared to approximately NIS 70,296 on December 31, 2006. The decrease was mainly the result of the repayment of Convertible Debentures and investment in other assets, during the period, as detailed below, offset by the net profit since the beginning of 2007 as set forth below.

An increase was recorded in trade receivables and income receivables from approximately NIS 15,675 thousand on December 31, 2006 to approximately NIS 26,850 thousand on September 30, 2007, mainly as a result of an increase in receivables due mainly to the rate of progress in setting up of logistical systems by the Company's Systems Department (within the framework of the Company's regular course of business).

An increase of approximately 6% was recorded in the amount of inventory, from approximately NIS 13,663 thousand on December 31, 2006 to approximately NIS 14,546 thousand on

September 30, 2007, mainly as a result of sales during the reported period in the year 2007. The Company believes that the ongoing process of increased efficiency in inventory acquisition and management contributes to an improvement in this item. The Company carries on an ongoing basis 60-100 days' inventory of parts and raw materials, to meet expected demand for a period of two months. In addition, the Company also maintains an inventory of finished products enabling the delivery of ongoing orders for a period of 45-75 days (for additional details regarding raw materials, suppliers and inventory, see Chapter A, Section 1.9.21.1 of the Company's 2006 Annual Periodical Report).

No significant change was recorded in the fixed assets item which totals approximately NIS 23,126 thousand on September 30, 2007, compared to approximately NIS 22,576 thousand on December 31, 2006.

There was an increase in the other assets item totaling approximately NIS 5,851 thousand on September 30, 2007 compared to approximately NIS 193 thousand on December 31, 2006. The increase was the result of the recording of the Company's development assets as a result of the implementation of Standard 30 as explained in Note 2d4 to the Financial Statements.

Liabilities

Short term credit totaled approximately NIS 12,330 thousandon September 30, 2007 compared to approximately NIS 11,720 thousand on December 31, 2006. The bulk of this amount is the result of current maturaties of the Unitronics debenture (Series 1), payable commencing May 2007, and current maturaties of Convertible Debentures denominated in Euro payable from May 2006 and will continue through September 2008.

The trade creditors item totaled approximately NIS 18,759 thousand on September 30, 2007 compared to approximately NIS 12,112 thousand on December 31, 2006. The increase was mainly due to increase in suppliers' credit.

A decrease was recorded in the other creditors and credit balances item, totaling approximately NIS 9,134 thousand on September 30, 2007, compared to approximately NIS 11,444 thousand on December 31, 2006. The reduction was the result of a decrease in accounts payable, offset by an increase in customer advances.

Long term liabilities showed a decrease, totaling approximately NIS 57,496 thousand on September 30, 2007 compared to approximately NIS 66,796 thousand on December 31, 2006. The decrease was mainly the result of the payment of 25% of the principal amount of the Unitronics Debentures (Series 1), in an amount of approximately NIS 8,750 thousand in May 2007.

The working capital of the Company decreased to approximately NIS 50,343 thousand on September 30, 2007 compared to approximately NIS 65,118 thousand on December 31, 2006. The decrease was mainly due to the partial repayment of the Convertible Debentures (Series 1), as described above.

The Company's equity on September 30, 2007 increased to approximately NIS 22,268 thousand, compared to approximately NIS 21,430 thousand on December 31, 2006. The increase was due to the Company's net profit, after offset of the purchase of the Company's shares by the Company during the reported period.

2. Operating results

Revenues

The Company's revenues in the first nine months of 2007 totaled approximately NIS 79,544 thousand, compared to approximately NIS 67,401 thousand for the same period in 2006 (an increase of approximately 18%). Company revenues for the quarter ending on September 30, 2007 totaled approximately NIS 24,021 thousand compared to approximately NIS 23,734 thousand in the same quarter of 2006, an increase of approximately one percent, and a decrease of approximately 14% as compared with the quarter which ended on June 30, 2007. This decrease is explained mainly as a result of a reduction in revenues in the Systems Department, as explained below.

Revenues from the Products Department in the quarter which ended on September 30, 2007 totaled approximately NIS 15,387 thousand, an increase of approximately 9% compared to the same period in 2006. Products Department revenues for the nine months of 2007 totaled approximately NIS 42,466 thousand, an increase of approximately 4% compared to the same period in 2006. The moderate cumulative increase in products Department revenues is estimated by the Company to have been mainly due to the strengthening of the shekel in relation to the main sales currencies (Dollar and Euro).

Revenues for the quarter from the Systems Department totaled approximately NIS 8,427 thousand, a decrease of approximately 11% compared to the same period in 2006. Systems Department revenues for the first nine months of 2007 totaled approximately NIS 36,550 thousand, an increase of approximately 41% compared to the same period in 2006. The variation between the quarters is mainly the result of a decrease in the rate of receipt of orders from customers, partly as a result of ongoing Company activity in the development of new markets in this field outside Israel (in the first instance mainly in the USA). In addition, the variation between quarters was influenced by the rate of progress in the setting up of the logistical systems by the Company's Systems Department.

Products Department revenues for the quarter ending September 30, 2007 represented approximately 64% of company revenues in the quarter, with revenues from the Systems Department representing approximately 35% of total revenues (the remaining 1% being from other revenues). In the same quarter of 2006, Products Department revenues represented approximately 60% of total Company revenues for the quarter, with Systems Department revenues representing approximately 39% of total revenues. Revenues from products in the whole of 2006 represented approximately 57% and Systems approximately 43% of revenues.

Cost of Revenues and Gross Profit

Gross profits for the quarter ending September 30, 2007 totaled approximately NIS 7,608 thousand NIS (approximately 32% of revenues for the period), compared to approximately NIS 7,831 thousand for the same period in 2006 (approximately 33% of revenues for the period). For the first nine months of 2007, gross profits totaled approximately NIS 22,391 thousand (approximately 28% of revenues for the period, compared to approximately NIS 23,924 thousand for the same period in 2006 (approximately 35% of revenues for the period).

The profitability rate in the Products Department is higher than in the Systems Department. In the Company's opinion, the change in the composition of revenues from the different operating segments and the relatively low profit margins of a number of deals, together with the strengthening of the shekel against the main sales currencies (Dollar and Euro) in 2007 are the main reasons for the changes in the gross profit rates.

Development expenses, net

Development expenses, net for the quarter ending September 30, 2007 totaled approximately NIS 407 thousand compared to approximately NIS 2,093 thousand for the same quarter in 2006. The development expenses, net in the first nine months of 2007 totaled approximately NIS 1,208 thousand, compared to approximately NIS 6,116 thousand for the same period in 2006. The change was mainly the result of the implementation of Standard 30 of the Israel Accounting Standards Board commencing January 2007, as explained in Note 2d4 to the Financial Statements. As a result of the implementation of the Standard, an intangible asset was recognized for the report period in an amount of approximately NIS 5,683 thousand in respect of which the conditions for recognition of intangible assets were fulfilled.

Development expenses, net in the report quarter reflect the ongoing development of new technologies and products required for ongoing growth of the Company and also for adaptation of Company products to standards requirements in various locations around the world (for details, see Section 1.9.1.2 of the Periodical Report for 2006). The Company estimates that as a result of the implementation of Standard 30, as explained above, an increase can be expected in the other assets item (as a result of the recording of development assets) in the coming quarters.[1]

Sales and Marketing Expenses

Sales and Marketing expenses for the quarter ending September 30, 2007 totaled approximately NIS 3,169 thousand (approximately 13% of revenues), as compared with approximately NIS 2,593 thousand (approximately 11% of revenues), in the same period in 2006. The Sales and Marketing expenses for the first nine months of 2007 totaled approximately NIS 9,794 thousand (approximately 12% of revenues), as compared with approximately NIS 8,214 thousand (approximately 12% of revenues) for the same period in 2006. An increase was recorded in Sales and Earketing expenses as compared with the same quarter last year, which was necessary for supporting the ongoing growth of the Company in accordance with Company policy in this area, and was caused principally by activity aimed at developing new markets in the systems sector outside Israel, the recruitment of personnel for the marketing teams, visiting and participation in exhibitions and other marketing activities in Israel and abroad. The Company estimates that an increase can be expected in these items in the coming quarters, with resulting adjustments in the growth of revenues.[2]

Administration and General expenses

An increase of approximately 13% was recorded in the General and Administrative expenses item in the quarter ended on September 30, 2007 and totaled approximately NIS 1,701 thousand, as compared with approximately NIS 1,499 for the same quarter in 2006. General and Administrative expenses for the first nine months of 2007 totaled approximately NIS 5,039 thousand as compared with approximately NIS 4,502 thousand for same period in 2006, an

[1] The information regarding the expected growth in the research expenses item is forward-looking information. The main data used as the basis for this information are the Company's development programs, the stages reached in the technology being developed at the report date, and the need for ongoing significant investment in research and development expenses for the realization of the Company's plan. The main factors which could result in this information not being realized are changes in the Company's development programs as a result of factors not under its control (such as market requirements and consumer preferences, developments by competitors, the prices of raw materials and services required by the Company), budget limitations for financing the expenditure on ongoing development in general and at the levels required by the Company and possible technological difficulties relating to the completion of the development stages according to these programs.

[2] The information regarding the expected growth in sales and marketing expenditure is forward-looking information. The main data used as the basis for this information are the company's marketing activities, including planned visits to exhibitions and distributors training, and the ongoing need for significant investment in marketing expenditure including expenses in respect of registration of intellectual property rights, including trade names and website names. The main factors which could result in this information not being realized are changes in the Company's marketing programs resulting from factors outside its control (such as changes in the Company's distributors, changes in the Company's main markets and/or markets in which the Company is not active, marketing activities by competitors).

increase of approximately 12%. The main growth in these periods (quarterly and cumulative) as compared with the same periods in 2006 is estimated by the Company to be the result of an increase in expenditure on professional consultancy and legal services.

The General and Administrative expenses for the reported period reflect, in the opinion of the Company, the expenses necessary for managing the Company's increasing operations.

Operating profits

An increase of approximately 25% in the operating profit was recorded in the first nine months of 2007, totaling approximately NIS 6,350 thousand as compared with an operating profit of approximately NIS 5,092 thousand for the same period in 2006. An increase of approximately 42% was recorded in the operating profit for the quarter ended on September 30, 2007, totaling approximately NIS 2,331 thousand as compared with an operating profit of approximately NIS 1,646 thousand for the same period in 2006.

The changes in the operating profits in the reported period were the result mainly of an increase in Company revenues and a reduction in development expenses as a result of the implementation of Standard 30, after offset of the increase in Sales and Marketing expenses as explained above.

Net Financing Expenses

Finance expenses in the quarter ending on September 30, 2007 totaled approximately NIS 3,171 thousand as compared with approximately NIS 1,236 thousand for same quarter in 2006. Finance expenses in the first nine months of 2007 totaled approximately NIS 5,412 thousand as compared with approximately NIS 3,359 thousand for the same period in 2006. The main increase during these periods (quarterly and cumulative) as compared with the same period in 2006 was the result, in the opinion of the Company, of a decrease in the Company's income from marketable securities and also as a result of the re-evaluation of the Company's Debentures (Series 2) , which are linked to the Consumer Price Index according to the Israeli prospectus.

This item includes mainly the interest elements of the Company's debentures, principally Debentures (Series 2), which were issued pursuant to the August 2006 prospectus, and costs of finance with respect to long term credit, after offset of the component of interest income and profits on marketable securities.

Commencing May 2004, there was an increase in the Company's exposure to changes in the exchange rate of the shekel vis-à-vis the dollar as a result of the issue of the Convertible Debentures (Series 1) pursuant to the Israel prospectus, which are linked to a NIS/dollar exchange rate of not less than 4.59 , and the repayment of the principle of which commenced in May 2007. In addition to this exposure to exchange rates fluctuations, there is an interest element as a result of such issuance and thus the Company is of the opinion that this item is exposed to the effects of potential interest rate changes.

Commencing August 2006, there was an increase in the Company's exposure to changes in the Consumer Price Index as a result of the issuance of Debentures (Series 2) , according to the Israeli prospectus, which are linked to the Consumer Price Index. In addition to this exposure to price index fluctuations, there is an interest element as a result of this issuance and thus the Company is of the opinion that this item is exposed to the effects of potential interest rate changes.

Net Profit

The Company showed a net loss in the reported quarter of approximately NIS 840 thousand , as compared with a net profit of approximately NIS 410 thousand in the same quarter of 2006 (approximately 2% of revenues). In the first nine months of 2007 the Company showed a net profit of approximately NIS 938 thousand (approximately 1% of revenues), a decrease of approximately 45% as compared with the net profit of approximately NIS 1,733 thousand for the same period in 2006 (approximately 3% of revenues).

The Company believes that the main factors contributing to the loss in the reported quarter as compared with the same quarter in 2006 were an increase in the finance expenses item and a decrease in the gross profits, after offset of a reduction in operating expenses items.

Analysis of Business Results by Operating Sectors

As previously stated, the Company's main commercial activity is carried out via two business departments, the Products Department and the Systems Department. Details of the results of the different departments are presented below.

Products Department

The Products Department results in the report quarter totaled approximately NIS 4,880 thousand, compared with approximately NIS 5,097 thousand for the same quarter in 2006. The Products Department results for the first nine months of 2007 totaled approximately NIS 11,458 thousand NIS, as compared with approximately NIS 13,697 thousand for the same period in 2006. The decrease in the Department results was, in the opinion of the Company, the result of the varying profit margins in a number of the transactions in this Department, and also the strengthening of the shekel against the main sale currencies (Dollar and Euro).

Systems Department

The Systems Department results for the report period showed a loss of approximately NIS 657 thousand, as compared with a profit of approximately NIS 151 thousand for the same quarter in 2006. The Systems Department results for the first nine months of 2007 totaled approximately NIS 1,288 thousand, as compared with approximately NIS 2,044 thousand for the same period in 2006.
The decrease in the Department results in this quarter as compared with the same quarter of 2006 was, in the opinion of the Company, the result of the varying profit margins in a number of the projects in this Department, an increase in marketing expenses attributed to this Department, and also a reduction in revenues of this Department in the reported quarter as compared with same period in 2006, as explained above.

3. Liquidity and Sources of Finance

The cash, cash equivalents and marketable securities balance of the Company on September 30, 2007 was approximately NIS 48,573 thousand, as compared to approximately NIS 70,296 thousand on December 31, 2006. The decrease was the result of a cumulative negative cash flow since the beginning of the year as explained below.

The cash flows from current operations in the quarter ending on September 30, 2007 resulted in a positive cash flow of approximately NIS 1,186 thousand, mainly as a result of an increase in the trade creditors item, after offset of the increase in the trade debtors and receivables items, and an offset of a decrease in the other creditors and credit balances item and the loss recorded in the report quarter. In the first nine months of 2007 there was a negative cash flow of approximately NIS 1,877 thousand, resulting mainly from an increase in the trade debtors item and receivables item after offset of an increase in trade creditors and also an offset of the net profit for the period as explained previously.

The cash flow from investment activities for the quarter ended on September 30, 2007 totaled a negative cash flow of approximately NIS 1,569 thousand, mainly reflecting the recording of investments in development assets as a result of the implementation of Standard 30 as explained above, and the purchase of fixed assets, after offset of the sale of marketable securities during the reported period. In the first nine months of 2007, cash flow from investment activities resulted in a negative cash flow of approximately NIS 21,892 thousand, mainly from the purchase of marketable securities and investment in fixed assets from the beginning of the year and the recording of investments in development assets as a result of the implementation of Standard 30, as explained above.

Cash flows from finance operations in the quarter ended on September 30, 2007 resulted in a negative cash flow of approximately NIS 784 thousand, resulting mainly from the repayment of Convertible Debentures denominated in Euro issued in February 2001. In the first nine months of 2007, cash flows from finance operations resulted in a negative cash flow of approximately NIS 11,040 thousand, as a result mainly of the repayment of Convertible Debentures (Series 1) in an amount of approximately NIS 8,750 thousand, as explained above.

On September 30, 2007, the credit lines available to the Company for financing current operations totaled approximately NIS 15.1 million. Of these credit lines, a total of approximately 0.7 million NIS was utilized on September 30, 2007, mainly to secure the Company's obligations in respect of projects being carried out by the Systems Department.

4. Qualitative Report on Exposure to Market Risks and their Management

The persons in the Company responsible for the management of market risks are the CEO and CFO of the Company.

Exposure to Exchange Rate Fluctuations

The Company is exposed to exchange rate fluctuations, mainly changes in the rate of the dollar against the shekel and the Euro, for the following reasons:

In May 2004 the Company issued Convertible Debentures (Series 1), in accordance with the 2004 prospectus. The principle and interest of the Debentures are linked to the representative rate of exchange of the US dollar (according to a base rate of 4.59 NIS per US$1); repayment of the principle and the interest commenced in May 2007. Up until their full conversion or full repayment by May 2010 the Company is exposed to fluctuations in the exchange rate of the dollar against the shekel. On November 23, 2007 the Company paid an interest installment in respect of these Debentures.

In February 2001 the company issued convertible Debentures which were issued and denominated in Euro. In December 2003, 75% of the principle 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 exchange rate of the Euro against the shekel. Up until November 5, 2007, the Company paid 7 out of the 10 principle and interest payments in respect of these Debentures.

The Company's assets which are exposed to exchange rate fluctuations, are mainly deposits in various currencies (mainly Euro and US dollar), liabilities of customers denominated in different currencies, depending on the customer, and which do not bear interest, and foreign currency-linked securities.

The current liabilities items, which are exposed to fluctuations in the exchange rate include current maturaties of long-term loans which are mainly linked to foreign currency and also obligations to suppliers in foreign currency, mainly Euros. The long term liabilities items include obligations in respect of the financing of the purchase of rights in the Company's facilities at Airport City, 50% of which are denominated in dollars and 50% of which are denominated in Euros.

The Company's operations are partly denominated in foreign currency or in shekels linked to foreign currency. In the Products Department, most of the revenues are dollar-denominated or are linked to the US dollar exchange rate, apart from products sold in Europe, which are denominated in Euro. In the SystemsDepartment, most of the revenues are from sales, which are denominated in Euro or are Euro-linked.

The raw materials required for the manufacture of the Company's products are mainly various electronic and mechanical components, the prices of which are denominated mainly in foreign currency – dollars or Euros.

Exposure to Changes in the Consumer Price Index

In August 2006, the Company issued Debentures (Series 2). These Debentures are linked to the Israeli Consumer Price Index. As a result, commencing in August 2006, there was an increase in the Company's exposure to changes in the Israeli Consumer Price Index. Development and changes in the Israeli economy including devaluations and inflation could result in changes in the Israeli Consumer Price Index and as a result affect the Company's finance income/expenses.

Risks Relating to Negotiable Securities

Some of the Company's financial resources are invested in negotiable securities. Unusual developments in the capital markets in Israel and abroad could result in fluctuations in the prices of the securities, which are traded on the stock market and as a result affect the Company's finance income/expenses.

Interest Risks

The Company has various loans relating to the purchase of rights in the Company's facilities at Airport City, Convertible Debentures (Series 1) and Debentures (Series 2) which were issued by the Company within the framework of prospectuses in 2004 and 2006, and credit facilities bearing various rates of interest and which are exposed to changes in the "prime" and/or LIBOR" interest rates.

Company Policy for Managing Market Risks

The policy of the Company is to reduce as far as possible, in respect of each contract, the exposure to exchange rate fluctuations by matching the revenues currency to the currency of the main expenses. In the Systems Department, the Company usually links the terms of payment (dates/Foreign Currency) by customers to the payment terms for the sub-contractors.

The Company's policy regarding the diversification of investments is designed to limit its exposure to dollar liabilities (mainly payment of principle and interest on the dollar-linked Convertible Debentures (Series 1).

For this purpose, the Company considered, in consultation with professional entities in the short-term capital market after the publication of the 2004 prospectus (and after receipt of the proceeds of the issuance), a number of investment possibilities, including the use of dollar-linked deposits, use of derivatives and other financial instruments and the use of shekel linked investments.

The Company estimates that since its liabilities under the Convertible Debentures (Series 1) which were issued under the 2004 prospectus are linked to a dollar exchange rate of not less than 4.59 NIS to the dollar, the use of dollar-linked deposits alone is insufficient to secure the Company's obligations in accordance with the Convertible Debentures (Series 1), mainly in the event of the fall in the rate of the dollar below the above base rate. On May 24, 2007, the Company repaid 25% of the total principle amount of the Convertible Debentures (Series 1), in an amount of approximately NIS 8,750 thousand at the exchange rate of 4.59 NIS to the dollar (whilst the representative rate of exchange on the date of payment was only NIS 3.991per dollar).

The use of derivatives and other financial instruments in hedging fluctuations in the exchange rate of the dollar to meet the Company's obligations under the Convertible Debentures (Series 1) was found by the Company to be not profitable given the high costs of using them.

Apart from the aforementioned activities, the management of market risks and methods of hedging taken during the year are presented to the Board of Directors on a quarterly basis and as part of discussions pertaining to the periodical reports.

5. Linkage bases statement

Consolidated linkage bases statement							
	At 30th September 2007						
	Israeli currency		Foreign currency				
	Unlinked	Linked to consumer price index	In euros	In US dollars	In other currencies	Non-cash balances	total
	Thousand new shekels						
Assets							
Cash and cash equivalents	1,542		2,191	1,364	-	-	5,097
Marketable securities	7,145	28,723	-	7,608	-	-	43,476
Trade debtors and receivables	13,130	-	3,517	10,203	-	-	26,850
Other debtors and debit balances	92	309	-	-	-	94	495
Inventory	-	-	-	-	-	14,546	14,546
Work in progress inventory	-	-	-	-	-	102	102
Long term deposits	-	-	-	-	-	444	444
Fixed assets, net	-	-	-	-	-	23,126	23,126
Other assets and deferred expenses, net	-	-	-	-	-	5,851	5,851
Total assets	21,909	29,032	5,708	19,175	-	44,163	119,987
Liabilities							
Short term credit and current maturities on long term loans	-	120	3,022	9,188	-	-	12,330
Suppliers and service providers	13,920	-	4,536	303	-	-	18,759
Accounts payable and accruals	8,380	-	-	350	-	404	9,134
Long term loans	-	140	4,857	4,050	-	-	9,047
Convertible debentures	-	-	-	15,666	-	-	15,666
Debentures	-	30,814	-	-	-	-	30,814
Accured severance pay, net	1,969	-	-	-	-	-	1,969
Deferred taxes	-	-	-	-	-	-	-
Total liabilities	24,269	31,074	12,415	29,557	-	404	97,719
Net Balance	(2,360)	(2,042)	(6,707)	(10,382)	-	43,759	22,268

6. Sensitivity Tests for Financial Instruments as of September 30, 2007

As of the balance sheet date, the Company has conducted 4 sensitivity tests in respect of changes in the upper and lower range of 5% and 10% in financial instruments. These market tests were conducted in line with an established model.

1) The following table presents the changes in the fair value of the financial instruments, which are sensitive to changes in the exchange rate of the dollar:

	Gain/loss from the change, thous. NIS		Thous. NIS	Gain/loss from the change, thous. NIS	
	10%+ 4.41 NIS to the $	5%+ 4.21 NIS to the $	Fair value 4.013 NIOS to the $	-5% 3.81 NIS to the $	-10% 3.61 NIS the $
Cash and cash equivalents	136	68	1,364	-68	-136
Traded securities	761	380	7,608	-380	-761
Trade debtors and receivables	1,020	510	10,203	-510	-1,020
ST credit and current maturations of LT liabilities (*)	-44	-22	9188-	22	44
Trade creditors	-30	-15	-303	15	30
Other creditors and credit balances	-35	-18	-350	18	35
LT loans	-405	-203	-4,050	203	405
Convertible bonds (**)	-	-	-15,666	-	-
Total	1,403	700	-10,382	-700	-1,403

* Current maturities of Convertible Debentures issued according to minimum rate of 4.59 NIS to the $.
** Convertible Debentures insured at a minimum rate of 4.59 NIS per dollar.

2) The following table presents the changes in the fair value of the financial instruments, which are sensitive to changes in the exchange rate of the Euro:

	Gain/loss from the change, thous. NIS		Thous. NIS	Gain/loss from the change, thous. NIS	
	10%+ 6.26 NIS to the euro	5%+ 5.97 NIS to the euro	Fair value 5.6898 NIS to the euro	-5% 5.4 NIS to the euro	-10% 5.12 NIS the euro
Cash and cash equivalents	219	110	2,191	-110	-219
Trade and income receivable	352	176	3,517	-176	-352
S.T credit and current maturities of L.T. liabilities	-302	-151	-3,022	151	302
Suppliers and service	-454	-227	-4,536	227	454
Lond-term loans	-486	-243	-4,857	243	486
Convertible Debentures	-	-	-	-	-
Total	-671	-335	-6,701	335	671

3) The following table presents the changes in the fair value of the financial instruments, which are sensitive to changes in the Consumer Price Index:

	Gain/loss from the change, thous. NIS		Thous. NIS	Gain/loss from the change, thous. NIS	
	10%+ 209.03 points	5%+ 199.53 points	Fair value 190.03 point	-5% 180.52 points	-10% 171.02 points
Marketable securities	2,872	1,436	28,723	-1,436	-2,872
Accounts receivable	31	15	309	-15	-31
ST credit and current maturities of LT liabilities	-12	-6	-120	6	12
LT Loans	-14	-7	-140	7	14
Debentures (***)	-3,081	-1,541	-30,814	313	313
Total	-204	103-	2,042-	-1,125	-2,564

*** Debentures issued according to base index 188.1 points (average 1993).

4) The following table presents the changes in the fair value of the financial instruments, which are sensitive to changes in marketable securities:

	Gain/loss from the change, thous. NIS		Thous. NIS	Gain/loss from the change, thous. NIS	
	10%+	5%+	Fair value	-5%	-10%
Government - local	1,415	707	14,149	-707	-1,415
Corporate - local	2,933	1,466	29,327	-1,466	-2,933
Total	4,348	2,174	43,476	-2,174	-4,348

7. Transition to International Financial Reporting Standards

In July 2006 the Israel Accounting Standards board published Accounting Standard number 29, "Adoption of International Financial Reporting Standards (IFRS) (herein: "the Standard"). This Standard states that entities which are subject to the Securities Law 5728 – 1968 and that are required to report in accordance with its regulations, will prepare their financial statements in accordance with the IFRS standards for periods commencing on January 1, 2008. The Standard permits early adoption, commencing with the financial standards published after July 31, 2006.

The initial adoption of the IFRS Standards will be carried out via implementation of IFRS Standard 1 "Initial Adoption of the IFRS Standards", for transitional purposes. In accordance with the Standard, the Company is required to include in the financial statements for December 31, 2007 the balance sheet data of December 31, 2007 and the operating results data for the year ending on that date, after implementing in respect of them the recognition, measurement and presentation rules of the IFRS standards.

The Company has made preparations for the adoption of the IFRS standards, and has carried out an examination of the significant effects expected to arise from the adoption of these standards. The management of the Company has appointed the CFO to be responsible for the process of adoption of the IFRS Standards. Information regarding the arrangements made by the Company for the transition to reporting in accordance with IFRS standards and a verbal and qualitative description of expected effects on the Company's consolidated financial statements as a result of the transition is given by the Company as part of the Board of Directors report contained in the periodical report for December 31, 2006 (See section 2.11 of the Periodic Report as of March 29, 2007).

Based on the sate of preparedness of the Company at the report date, and subject to changes that could arise during the process of gathering data, and adjustment to the IFRS standards and changes which could arise from developments regarding the interpretation of the IFRS standards, the Company has presented an estimate of the significant financial effects of the transition from reporting according to generally accepted accounting practices in Israel and reporting according to IFRS rules, on balance sheet items on January 1, 2007 (the date of transition to reporting according to IFRS standards) (hereinafter: the **"Opening Balance Sheet"**) and on June 30, 2007 in respect of which the transition is significant, and on operating results items for the six month period ending on June 30, 2007, in respect of which the effect of the transition is significant, together with explanations as to those effects.

No significant changes have occurred in the quantitative effect of the transition to international financial reporting standards on the opening balance sheet of January 1, 2007 and on the financial situation and operating results for periods of nine months, which ended on September 30, 2007.

Within the framework of the possible effects of the transition to the international financial reporting standards (IFRS), the Company is also considering the possible effect of the accounting treatment of long-term performance contracts, which are denominated in foreign currency as embedded derivatives, this being in view of the recent publication of an opinions draft put together as a result of the deliberations of the professional committee of the Accounting Standards Board on the subject of International Accounting Standard 39: Financial Instruments: Recognition and Measurement – Contracts for the purchase of non-financial Items denominated in or linked to foreign currency.
The Company will continue tracking developments and will examine the possible effect of the subject on the Company's financial statements at the date of transition to the IFRS standards.

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

The Company's financial statements are prepared by the Company's CFO. The statements are reviewed (and in the relevant cases even audited) by the Company's auditor, who is given complete access to all the data and information in the Company, including meetings with Company employees and directors, as required by him. After a review/audit has been conducted by the auditor, the reports are transferred to members of the Company's Board of Directors, for review prior to and in preparation for the discussion in Board of Directors' meetings designated to that end. The Company views its Board of Directors as the entity in charge of the ultimate control in the matter of the Company's financial statements. The members of the board of directors and their respective duties in the Company are:

1. Mr. Haim Shani – Chairman of the Board of Directors and CEO of the Company, and a director with professional qualifications.
2. Ms. Bareket Shani – A director with professional qualifications, Vice President and Head of Human Resources, member of the Credit and Investment Committee and the Securities Committee of the Company's Board of Directors.
3. Zvi Livne, CPA - a director with accounting qualifications and member of the Audit Committee.
4. Ron Mishal, CPA – External director with accounting qualifications, member of the Audit Committee and the Credit and Investment Committee of the Company.
5. Moshe Bra'az, CPA - External director with accounting qualifications, member of the Audit Committee and the Securities Committee of the Company's board of directors.

After the directors have read the financial statements, a Board of Directors' meeting is convened for the purpose of presenting and discussing the financial statements. In this meeting, the Company's management reviews the main data of the financial statements. The Company's auditor is also present in the meeting, to reviews certain aspects of the reports, accounting issues relating to the financial statements and the process of review and audit conducted be him in the Company, and then answers questions director to him by members of the board (together with the Company's CEO and CFO, who answer the questions directed at them). Under the Board of Directors' discussion, comments and/or clarifications or requests are often made for additional data, which are then reflected in the financial statements. At the end of the discussion, the financial statements are subject to approval by vote.

Zvi Livneh	Haim Shani
Director	Chairman and CEO

Date: 29th November 2007

UNITRONICS (1989) (R"G) LTD.

Financial Statements
As of September
30, 2007

(Unaudited)

Unitronics (1989) (R"G) Ltd.

Financial Statements

As of September 30, 2007

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

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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 of September 30, 2007, and the related interim consolidated statements of operations, changes in shareholders' equity and cash flows for the nine and 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 at September 30, 2007 represent approximately 9% of the total assets included in the Consolidated Interim Balance Sheet and whose income for the nine month period ending September 30, 2007 represents approximately 18% of the total income included in the Consolidated Interim Statement of Operations.

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

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

Amit, Halfon
Certified Public Accountants
(Israel)

November 29, 2007

Unitronics (1989) (R"G) Ltd.
Consolidated Balance Sheets

	September 30, 2007	*September 30, 2007*	*September 30, 2006*	*December 31, 2006*
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro(1)	Reported NIS		
Cash and cash equivalents	896	5,097	42,782	39,906
Marketable securities	7,641	43,476	31,870	30,390
Accounts receivable -				
Trade	4,719	26,850	11,708	15,675
Other	87	495	1,116	566
Inventory	2,557	14,546	15,486	13,663
Inventory - work in progress	18	102	-	194
Current assets	*15,918*	*90,566*	*102,962*	*100,394*
Long-term deposits	*78*	*444*	*292*	*339*
Property and equipment, net	*4,064*	*23,126*	*22,341*	*22,576*
Other assets and deferred expenses, net	*1,028*	*5,851*	*179*	*193*
Total assets	***21,088***	***119,987***	***125,774***	***123,502***
Credit from banks and others	2,167	12,330	9,950	11,720
Accounts payable -				
Trade	3,297	18,759	13,367	12,112
Other	1,606	9,134	10,771	11,444
Current liabilities	*7,070*	*40,223*	*34,088*	*35,276*
Long-term debt from banks and others	1,590	9,047	10,235	9,978
Convertible bonds	2,753	15,666	26,774	25,331
Bonds	5,416	30,814	29,675	29,859
Accrued severance pay, net	346	1,969	2,017	1,628
Long-term liabilities	*10,105*	*57,496*	*68,701*	*66,796*
Shareholders' equity	*3,913*	*22,268*	*22,985*	*21,430*
Total liabilities and shareholders' equity	***21,088***	***119,987***	***125,774***	***123,502***

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

Approved: November 29, 2007.

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Operations	*For the nine months period ended September 30,*	*For the nine months period ended September 30,*		*For the three months period ended September 30,*	*For the three months period ended September 30,*		*For the year ended December 31,*
	2007	**2007**	**2006**	**2007**	**2007**	**2006**	**2006**
	(unaudited)	**(unaudited)**		**(unaudited)**	**(unaudited)**		**(audited)**
				(in thousands)			
	Convenience translation into Euro (1)	**Reported NIS**		**Convenience translation into Euro (1)**	**Reported NIS**		
Revenues	13,980	79,544	67,401	4,222	24,021	23,734	94,781
Cost of revenues	10,045	57,153	43,477	2,885	16,413	15,903	62,176
Gross profit	*3,935*	*22,391*	*23,924*	*1,337*	*7,608*	*7,831*	*32,605*
Development expenses, net	212	1,208	6,116	72	407	2,093	8,521
Selling & marketing expenses	1,721	9,794	8,214	557	3,169	2,593	10,970
General & administrative expenses	886	5,039	4,502	299	1,701	1,499	6,102
Operating profit	*1,116*	*6,350*	*5,092*	*409*	*2,331*	*1,646*	*7,012*
Financing expenses, net	951	5,412	3,359	557	3,171	1,236	4,827
Operating profit (loss) after financing expenses, net	*165*	*938*	*1,733*	*(148)*	*(840)*	*410*	*2,185*
Other income, net	-	-	33	-	-	-	23
Profit (loss) before taxes on income	*165*	*938*	*1,766*	*(148)*	*(840)*	*410*	*2,208*
Tax benefits (taxes on income)	-	-	(87)	-	-	3	(85)
Profit (loss) for the period	*165*	*938*	*1,679*	*(148)*	*(840)*	*413*	*2,123*
Profit (loss) per ordinary share NIS 0.02 par value	0.015	0.084	0.164	(0.013)	(0.076)	0.036	*0.185*

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

Unitronics (1989) (R"G) Ltd. Statements of Shareholders' Equity	Share capital	Capital reserves	Share premium	Receipts on account of warrants and conversion option	Company shares held by the company	Accumulated Loss	Total
	Reported NIS in thousands						
Balance at January 1, 2006 (audited)	352	-	48,442	676	(574)	(28,231)	20,665
Purchase of company shares by the company	-	-	-	-	(2,066)	-	(2,066)
Split of conversion option from convertible bonds, net	-	-	-	235	-	-	235
Benefit arising from warrants granted	-	11	-	-	-	-	11
Receipts on account of warrants	-	-	-	462	-	-	462
Profit for the year	-	-	-	-	-	2,123	2,123
Balance at December 31, 2006 (audited)	352	11	48,442	1,373	(2,640)	(26,108)	21,430
Purchase of company shares by the company	-	-	-	-	(100)	-	(100)
Profit for the period	-	-	-	-	-	938	938
Balance at September 30, 2007 (unaudited)	352	11	48,442	1,373	(2,740)	(25,170)	22,268
Balance at January 1, 2006 (audited)	352	-	48,442	676	(574)	(28,231)	20,665
Purchase of company shares by the company	-	-	-	-	(67)	-	(67)
Split of conversion option from convertible bonds, net	-	-	-	235	-	-	235
Benefit arising from warrants granted	-	11	-	-	-	-	11
Receipts on account of warrants	-	-	-	462	-	-	462
Profit for the period	-	-	-	-	-	1,679	1,679
Balance at September 30, 2006 (unaudited)	352	11	48,442	1,373	(641)	(26,552)	22,985
Balance at July 1, 2007 (unaudited)	352	11	48,442	1,373	(2,740)	(24,330)	23,108
Loss for the period	-	-	-	-	-	(840)	(840)
Balance at September 30, 2007 (unaudited)	352	11	48,442	1,373	(2,740)	(25,170)	22,268
Balance at July 1, 2006 (unaudited)	352	11	48,442	911	(641)	(26,965)	22,110
Receipts on account of warrants	-	-	-	462	-	-	462
Profit for the period	-	-	-	-	-	413	413
Balance at September 30, 2006 (unaudited)	352	11	48,442	1,373	(641)	(26,552)	22,985

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

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

	Share capital	Capital reserves	Share premium	Receipts on account of warrants and conversion option	Company shares held by the company	Accumulated Loss	Total
	Convenience translation into Euro in thousands (unaudited) (1)						
Balance at January 1, 2007	62	2	8,514	241	(464)	(4,589)	3,766
Purchase of company shares by the company	-	-	-	-	(18)	-	(18)
Profit for the period	-	-	-	-	-	165	165
Balance at September 30,	62	2	8,514	241	(482)	(4,424)	3,913
	Convenience translation into Euro in thousands (unaudited) (1)						
Balance at July 1, 2007	62	2	8,514	241	(482)	(4,276)	4,061
Loss for the period	-	-	-	-	-	(148)	(148)
Balance at September 30,	62	2	8,514	241	(482)	(4,424)	3,913

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Cash Flows	For the nine months period ended September 30,	For the nine months period ended September 30,		For the three months period ended September 30,	For the three months period ended September 30,		For the year ended December 31,
	2007	2007	2006	2007	2007	2006	2006
	(unaudited)	(unaudited)		(unaudited)	(unaudited)		(audited)
				(in thousands)			
	Convenience translation into Euro (1)	Reported NIS		Convenience translation into Euro (1)	Reported NIS		
Profit (loss) for the period	165	938	1,679	(148)	(840)	413	2,123
Adjustments necessary to show the cash flows from operations (Appendix A)	(496)	(2,815)	(6,682)	356	2,026	(1,480)	(6,930)
Cash flows provided by (used in) operating activities	*(331)*	*(1,877)*	*(5,003)*	*208*	*1,186*	*(1,067)*	*(4,807)*
Sale of (investment in) marketable securities, net	(2,454)	(13,963)	1,976	156	881	(126)	2,106
Changes in restricted cash, net	-	-	2,300	-	-	-	2,300
Purchase of property and equipment	(366)	(2,082)	(1,143)	(85)	(484)	(517)	(1,865)
Sale of equipment	-	-	33	-	-	-	48
Investment in long-term deposits	(32)	(187)	(97)	(9)	(49)	(23)	(176)
Repayment of long-term deposits	14	82	6	7	42	4	38
Investment in other assets and deferred expenses	(1,009)	(5,742)	(110)	(345)	(1,959)	-	(156)
Cash flows provided by (used in) investing activities	*(3,847)*	*(21,892)*	*2,965*	*(276)*	*(1,569)*	*(662)*	*2,295*
Repayment of long-term loans	(147)	(837)	(100)	(47)	(268)	(30)	(125)
Short-term credit from banks, net	-	-	(1)	-	-	(1)	(1)
Purchase of company shares by the company	(18)	(100)	(67)	-	-	-	(2,066)
Repayment of convertible bonds	(1,776)	(10,103)	(622)	(90)	(516)	(313)	(1,000)
Receipts on account of warrants	-	-	462	-	-	462	462
Bonds issue	-	-	29,606	-	-	29,606	29,606
Cash flows provided by (used in) financing activities	*(1,941)*	*(11,040)*	*29,278*	*(137)*	*(784)*	*29,724*	*26,876*
Increase (decrease) in cash and cash equivalents	*(6,119)*	*(34,809)*	*27,240*	*(205)*	*(1,167)*	*27,995*	*24,364*
Cash and cash equivalents at beginning of period	7,015	39,906	15,542	1,101	6,264	14,787	*15,542*
Cash and cash equivalents at end of period	*896*	*5,097*	*42,782*	*896*	*5,097*	*42,782*	39,906

(1) See note 2D.

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

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

	For the nine months period ended September 30,	*For the nine months period ended September 30,*		*For the three months period ended September 30,*	*For the three months period ended September 30,*		*For the year ended December 31,*
	2007	**2007**	**2006**	**2007**	**2007**	**2006**	**2006**
	(unaudited)	**(unaudited)**		**(unaudited)**	**(unaudited)**		**(audited)**
				(in thousands)			
	Convenience translation into Euro (1)	**Reported NIS**		**Convenience translation into Euro (1)**	**Reported NIS**		
Appendix A - Adjustments necessary to show the cash flows from operations							
Depreciation and amortization	565	3,217	2,551	187	1,065	1,079	3,610
Loss (profit) from marketable securities, net	154	877	(483)	233	1,326	(105)	867
Benefit arising from warrants granted	-	-	11	-	-	-	11
Capital gain	-	-	(33)	-	-	-	(23)
Increase in accrued severance pay, net	60	341	671	10	57	204	282
Deferred taxes, net	-	-	85	-	-	-	85
Exchange rate differences on long-term debt and convertible bonds	54	308	(444)	11	64	(577)	(352)
Decrease (increase) in accounts receivable - trade	(1,964)	(11,175)	(1,605)	465	2,646	491	(5,572)
Decrease (increase) in accounts receivable - other	12	71	(87)	76	431	(56)	463
Increase in inventory	(155)	(883)	(6,035)	(290)	(1,648)	(310)	(4,212)
Increase (decrease) in inventory - work in progress	16	92	-	11	65	19	(194)
Increase (decrease) in accounts payable - trade	1,168	6,647	221	546	3,102	(2,755)	(1,034)
Increase (decrease) in accounts payable - other	(406)	(2,310)	(1,534)	(893)	(5,082)	530	(861)
	(496)	*(2,815)*	*(6,682)*	*356*	*2,026*	*(1,480)*	(6,930)

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

Note 1 - General

These financial statements have been prepared in a condensed format as of September 30, 2007, and for the nine and the three months then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of December 31, 2006 and for the year then ended.

Note 2 - Significant Accounting Policies

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

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

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

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

As of	**Israeli CPI**	**Exchange rate of One U.S. dollar**	**Exchange rate of One Euro**
	Points (*)	**NIS**	**NIS**
September 30, 2007	189.10	4.013	5.6898
September 30, 2006	186.48	4.302	5.4552
December 31, 2006	184.87	4.225	5.5643
Change during the period	%	%	%
September 2007 (nine months)	2.29	(5.02)	2.25
September 2006 (nine months)	0.77	(6.54)	0.16
September 2007 (three months)	1.30	(5.55)	(4.1)
September 2006 (three months)	(0.77)	(3.11)	(3.34)
December 2006 (12 months)	(0.10)	(8.21)	2.16

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

Note 2 - Significant Accounting Policies (cont')

D. Convenience translation in EURO

For the convenience of the reader, the reported NIS amounts for the last reported period have been translated in EURO by dividing each reported NIS amount by the representative rate of exchange of the EURO as at September 30, 2007 (EURO 1 = NIS 5.6898).

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

E. Initial application of new Accounting Standards

1. Accounting standard No. 26 - "Inventories"

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

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

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

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

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

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

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

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

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

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

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

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

4. Accounting Standard No. 30 - "Intangible Assets" (cont')

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

A Research & Development asset will be recognized according to the amount estimated on the date of the acquisition less amortization which would have accumulated had it been amortized from the date of the acquisition until December 31, 2006, according to the useful life of the asset, and less losses from any impairment in value accumulated; the adjusted amount will be posted to retained earnings on January 1, 2007.

As a result of the implementation of the standard an intangible asset was recognized in the reported period relating to development costs at an amount of approximately NIS 5,683 thousands (Euro 999 thousands) (unaudited), which meets the terms for recognition as an intangible asset.

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

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

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

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

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

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

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

Note 2 - Significant Accounting Policies (cont')

F. Disclosure of the effects of new Accounting Standards prior to their adoption (cont')

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

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

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

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

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

Note 3 - Business segments

Unitronics (1989) (R"G) Ltd. Consolidated	***For the Nine months period ended September 30,***	***For the nine months period ended September 30,***		***For the three months period ended September 30,***	***For the three months period ended September 30,***		***For the year ended December 31,***
	2007	**2007**	**2006**	**2007**	**2007**	**2006**	**2006**
	(unaudited)	**(unaudited)**		**(unaudited)**	**(unaudited)**		**(audited)**
				(in thousands)			
	Convenience translation into Euro	**Reported NIS**		**Convenience translation into Euro**	**Reported NIS**		
A. Revenues							
Products	7,464	42,466	40,882	2,704	15,387	14,084	53,711
System integration projects	6,424	36,550	25,981	1,481	8,427	9,435	40,370
Other	92	528	538	37	207	215	700
Total revenues	*13,980*	*79,544*	*67,401*	*4,222*	*24,021*	*23,734*	*94,781*
B. Segment results							
Products	2,014	11,458	13,697	857	4,880	5,097	17,427
System integration projects	226	1,288	2,044	(115)	(657)	151	4,247
Other	(8)	(48)	75	15	83	23	57
Unallocated corporate expenses	(1,116)	(6,348)	(10,724)	(348)	(1,975)	(3,625)	(14,719)
Operating profit	*1,116*	*6,350*	*5,092*	*409*	*2,331*	*1,646*	*7,012*