UNITRONICS (1989) (R"G) LTD.

Quarterly Report as of September 30, 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
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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 automated 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 in "Unitronics House", an office and industrial building which is leased, in part, by the Company. Unitronics House is situated at Airport City next to the David Ben-Gurion Airport, and it houses the Company's offices 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

Annual Report re: Debenture (Series 2) Trust Activities

On July 15, 2008 the Company published on behalf of and at the request of Hermetic Trustees (1975) Ltd. (hereinafter: "**Hermetic**"), that as trustee on behalf of holders of Debentures (Series 2), Hermetic announced that the annual report of trust activities performed by the Trustee in the period commencing August 15, 2006 and up until July 9, 2008 is available for the review of the holders of Debentures (Series 2) at the Trustee's offices (for details see Immediate Report concerning the Annual Report re: Debentures (Series 2) Trust Activities dated July 15, 2008).

Tenth and Final Payment for EuroNext Debentures

On August 5, 2008 the Company executed the tenth 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 Section 6.4.2 of the Company's prospectus from August 16, 2006) (for details see the Immediate Report concerning the tenth payment of Debentures (Series 5/04) dated August 6, 2008).

Following these payments, there are no remaining outstanding debentures of this class.

Self-Purchase of Company Shares

As of August 2005, the Company purchases from time to time ordinary shares of the Company in the course of trading on the Tel Aviv Stock Exchange as well as the EuroNext Stock Exchange in Belgium. As of the publication date of this report the Company holds 664,880 such purchased shares (out of 11,676,546 ordinary shares currently in the Company's issued capital). As long as these shares are owned by the Company, they are considered "dormant shares" as defined by the Companies Law, 5759-1999. For further details of these purchases see the Immediate Reports published by the Company from time to time in connection with these purchases, starting August 18, 2005.

Changes in the Holdings of Holders of an Interest

In consequence of the payment of the EuroNext debentures and the self-purchase of shares by the Company as stated above, the rate of the holdings of Mr. Haim Shani, Company CEO and a controlling shareholder therein, increased. Mr. Shani's holding rate after the changes was: 55.75% of the capital and 59.39% of the voting rights (and on a fully diluted basis after the change: 43.89% of capital and 46.75% of voting rights) (for details, see Immediate Report concerning the status of holdings of interested parties dated September 21, 2008).

<u>Changes in the Economic Environment and Effects of the Capital Market Crisis</u>

The global markets are currently experiencing a financial crisis. The events associated with the financial crisis could impact the Israeli capital market, and *inter alia* Israeli companies' liquidity, business position and ability to obtain funding for their current and long-term operations. Alongside the global financial crisis, there have been several developments in the Israeli economy in the course of the past eighteen months, among them significant fluctuations in the exchange rates of the major foreign currencies against the shekel, and an increase in the inflation rates in the local economy.

The financial crisis in the capital market is affecting the Company's financing income and expenses, mostly due to the erosion in Company revenues derived from marketable securities, and has consequently affected its operating results in the reported quarter and in the subsequent period. For details see the financing income and expenses item in the description of the operating results as well as the description of the Company's exposure and the ways in which it is handled in the section on qualitative reporting concerning exposure to market risks herein below. Following the balance sheet date and up until its publication, an additional erosion of approximately 9% was registered in such marketable securities, amounting to approximately 2,750 NIS thousand.

The fluctuations in the exchange rates of the major foreign currencies against the shekel are mainly affecting the Company's financing income and expenses, largely due to the erosion in Company revenues derived from marketable securities linked to these exchange rates, and has consequently affected its operating results in the reported quarter and in the subsequent period. For details see the financing income and expenses item in the description of the operating results as well as the description of the Company's exposure and the ways in which it is handled in the section on qualitative reporting concerning exposure to market risks herein below.

The increase in inflation rates in the local economy is affecting the Company's financing income and expenses derived mainly from the revaluation of debentures (Series 2), which are linked to the Israeli CPI pursuant to the Company's August 2006 prospectus. For details see the financing income and expenses item in the description of the operating results as well as the description of the Company's exposure and the ways in which it is handled in the section on qualitative reporting concerning exposure to market risks herein below.

The effects of the financial crisis in the global markets could slow demand for the Company's products and services as well as the Company's growth rate, and are also liable to be reflected in extreme volatility of the factors affecting its results, such as exchange rates, cost and availability of customer and supplier credit in the different markets in which it operates, and so forth.

The worldwide state of uncertainty and the instability of the financial markets could have a significant effect in the coming period, but as of the date of approval of the Company's financial statements, the Company is unable to assess the probable effect of the events described above and the duration of the period in which these effects will persist.

Results of Annual General Meeting of Company Shareholders

At the annual general meeting of the Company's shareholders which was held on September 23, 2008, the following resolutions have been adopted:

1. To appoint Mr. Joel Sela as an external director of the Company. A total of 6,102,545 shares were present and participated in the vote. 6,102,545 shares voted in favor of the resolution; 0 shares voted against the resolution; 0 shares abstained. Percentage of votes that voted against the resolution out of all the shares with a voting right: 0. Percentages of votes that voted in favor of the resolution out of all the shares with a voting right: 55.4%. Percentage of votes that voted for the resolution out of all the votes of controlling shareholders or their representatives: 100%. Percentage of votes that voted against the resolution out of all the votes of non-controlling shareholders or their representatives: 0.
2. To approve the grant of an indemnity letter to Mr. Joel Sela in accordance with the indemnification terms that were approved by the general meeting of the Company's shareholders on May 9, 2006 and that apply to the Company's other directors.
3. To approve insurance coverage for Mr. Joel Sela in accordance with the terms approved by the general meeting of the Company’s shareholders, the Board of Directors and the Audit Committee concerning the grant of insurance coverage to directors and officers of the Company and that apply to all other directors in the Company.
4. To approve the re-appointment of Mr. Haim Shani as a director of the Company (category C) for an additional three-year term, in accordance with the Company's articles.
5. To approve the re-appointment of Ms. Bareket Shani as a director of the Company (category C) for an additional three-year term, iin accordance with the Company's articles.
6. To approve that the Company's financial statements and Board of Directors' report for the year ended December 31, 2007 were presented to the meeting.
7. To approve that the Company's detailed annual report (in the Barnea Committee format) for the year ended December 31, 2007 was presented to the meeting.
8. To re-appoint CPA Amit Halfon as the Company's auditor and to authorize the Board of Directors to determine their remuneration.

For details of the appointment of Mr. Joel Sela as an external director, the re-appointment of Mr. Haim Shani and Ms. Bareket Shani as directors, and the approval of the grant of an indemnity letter and of annual remuneration and participation to Mr. Joel Sela, see Immediate Reports dated September 24, 2008.

Interest on principal of debentures (Series 1) for the tenth period

On November 23, 2008 the Company published a report, according to which, the interest rate on the principle amount of debentures (Series 1) for the tenth period, that is, from November 23, 2008 up until May 22, 2009, would be 2.6069%, based on an annual LIBOR interest rate (for a period of 6 month) in the value of 2.7138% + 2.5% per year. (for details see the Immediate Report dated November 23, 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 issued an interim ruling addressing certain of the parties' arguments, in which it accepted Unitronics' position and ruled that Unitronics had not infringed and does not infringe 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 ruling". On November 1, 2007 the Company filed several claims against the defendant, essentially comprising petitions to the court to prohibit the defendant from interfering in the Company's contractual relations with its customers and suppliers and a request that a declaration of the invalidity of Gharb's patent should not prejudice the Company's rights to additional proceedings, in addition to a request to reject Gharb's request for review of the court's ruling.

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

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

On June 11, 2008, Gharb filed with the court a "motion for payment", which the judge regarded as a notice of appeal, therefore on July 1, 2008 the appeal was recorded and submitted for processing to the US Court of Appeals for the Federal Circuit. In his motion, Gharb filed documents and a letter of appeal and was required to pay court fees no later than June 14, 2008. On July 11, 2008 the Company submitted to the court the documents required in the framework of the appeal, and following delays, Gharb paid the court fees.

On September 19, 2008 Gharb submitted an informal brief document, which was accepted by the court. On October 9, 2008 the Company submitted its informal response to the brief. In its response the Company claimed that there was no need to hold an oral hearing in the case. On October 21, 2008 the court ruled that it was unnecessary to hold an oral hearing and that a panel of three judges would consider the appeal on December 2, 2008.

On November 5, 2008 Gharb submitted an additional brief document to the Court of Appeals (a copy of which was not served to the Company). The court officer refused to accept this brief, and it appears that the court will decide whether this additional brief is admissible when it considers the appeal. The Company believes that it has strong arguments for rejecting the petition in its entirety – as all of Gharb's claims were previously rejected.

Chapter B – Board of Directors Report

1. Financial Position

Total assets according to the consolidated balance sheet of the Company as of September 30, 2008 decreased to approximately NIS 98,536 thousand compared to approximately NIS 112,900 thousand as of December 31, 2007. The decrease stemmed mainly from a decrease in the cash, marketable securities and trade receivables items, offset by an increase in the inventory and other assets items, as detailed hereinafter.

In the total of cash, cash equivalents and marketable securities items a decrease was recorded, and it stood at approximately NIS 39,790 thousand as of September 30, 2008 compared to approximately NIS 54,702 thousand as of December 31, 2007. The decrease was mainly a result of a negative cash flow in the reported period, primarily due to repayment of 25% of the total nominal principal of convertible debentures (Series 1), as detailed hereinafter, and to investments in other assets (after recording of the Company's development assets) since the beginning of 2008, as detailed 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 9,554 thousand as of September 30, 2008, attributable mainly to a decrease in income receivables from the systems segment.

No material change was recorded in inventory, which amounted to approximately NIS 13,414 thousand as of September 30, 2008 compared to approximately NIS 12,980 thousand as of December 31, 2007. The Company is working continuously to improve efficiency in the stocking up and inventory 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).

No significant change was recorded in fixed assets, which stood at approximately NIS 18,431 thousand as of September 30, 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 15,846 thousand as of September 30, 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, commencing January 2007.

Liabilities

Total short term credit amounted to approximately NIS 16,970 thousand as of September 30, 2008, compared to approximately NIS 11,775 thousand as of December 31, 2007. The main amount is comprised of current maturities of convertible debentures (Series 1) payable commencing May 2007, current maturities of convertible debentures (Series 2) payable commencing August 2009, and current maturities of long-term loans.

Trade payables decreased to approximately NIS 9,244 thousand as of September 30, 2008, compared to approximately NIS 12,630 thousand as of December 31, 2007. This decrease is mainly due to a decrease in trade payables in the systems segment in the reported period.

Other accounts payable increased to approximately NIS 9,528 thousand as of September 30, 2008, compared to approximately NIS 8,230 thousand as of December 31, 2007. The increase is primarily due to an increase in customer advances, offset by a decrease in expenses payable in the reported period.

Long-term liabilities amounted to approximately NIS 41,110 thousand as of September 30, 2008, compared to approximately NIS 55,290 as of December 31, 2007. The decrease is mainly attributable to repayment of 25% of the total nominal principal of convertible debentures (Series 1), as detailed hereinafter, and to recording of current maturities of debentures (Series 2), as detailed above.

The Company's Working capital decreased to approximately NIS 28,104 thousand as of September 30, 2008, compared to approximately NIS 49,399 thousand as of December 31, 2007. The decrease is primarily due to partial repayment of convertible debentures (Series 1), as detailed above, to recording of current maturities of debentures (Series 2), as detailed above, and to the net loss recorded in the period, as explained hereinafter.

The Company's shareholders' equity decreased to approximately NIS 21,511 thousand as of September 30, 2008, compared to approximately NIS 24,764 as of December 31, 2007. The decrease is mainly due to the net loss recorded in the period, as explained hereinafter.

2. Operating Results

Revenues

Company revenues in the first nine months of 2008 amounted to approximately NIS 59,354 thousand, compared to approximately NIS 79,458 thousand in the same period in 2007 (a 25% decrease). Company revenues in the quarter ended September 30, 2008 amounted to approximately NIS 19,380 thousand, compared to approximately NIS 24,013 thousand in the same quarter in 2007 (a 19% decrease). This decrease since the start of the year is primarily due to a decrease in revenues from the systems segment, offset by an increase in revenues from the products segment, as detailed below.

Revenues from the products segment in the quarter ended September 30, 2008 amounted to approximately NIS 16,249 thousand, a 5.6% increase over the same quarter in 2007. Revenues from the products segment in the first nine months of 2008 amounted to approximately NIS 49,093 thousand, an increase of approximately 15.6% compared to approximately NIS 42,466 thousand in the same period in 2007. The increase in revenues from the products segment stems, in the Company's estimation, mainly from growing market recognition of the Company's products, the introduction of new products and the international marketing efforts.

Revenues from the systems segment in the quarter ended September 30, 2008 amounted to approximately NIS 2,907 thousand, a 65% decrease compared to the same quarter in 2007. Revenues from the systems segment in the first nine months of 2008 amounted to approximately NIS 9,721 thousand, a decrease of 73% compared to approximately NIS 36,464 thousand in the same period in 2007. The decrease in revenues from the systems segment stems, in the Company's estimation, from a decrease in the flow of orders from customers, due *inter alia* to a decrease in the number of project starts in this field in the local market and to the continuation of the Company's activity in the development of new markets in this field outside Israel (mainly in the U.S. in the initial stage).

Revenues from the products segment in the quarter ended September 30, 2008 constituted approximately 84% of total Company revenues in this quarter, while revenues from the systems segment in the same period constituted approximately 15% of total revenues (another 1% accounted for by other revenues). In the corresponding quarter in 2007, revenues from the products segment constituted approximately 64% of total Company revenues in that quarter, while revenues from the systems segment in the same period constituted approximately 35% of total revenues. Overall for the year 2007, revenues from products accounted for approximately 59% of total revenues while revenues from systems accounted for approximately 41% of total revenues.

Cost of Revenues and Gross profit

Total gross profit in the quarter ended September 30, 2008 amounted to approximately NIS 6,097 thousand (about 32% of the revenues for the period), compared to approximately NIS 7,606 thousand in the corresponding quarter in 2007 (about 32% of the revenues for the period). Total gross profit for the first nine months of 2008 amounted to approximately NIS 19,701 thousand (about 33% of revenues for the period), compared to approximately NIS 22,292 thousand for the same period in 2007 (about 28% of revenues for the period).

The increase in gross profit rates since the start of the year stems mainly from the change in the composition of revenues from the different operating segments, as explained above. Gross profit rates in the products segment are higher than those in the systems segment.

Development Costs, net

Development costs, net, remained essentially unchanged in the quarter ended September 30, 2008, amounting to approximately NIS 506 thousand, compared to approximately NIS 407 thousand in the corresponding quarter in 2007. Development costs, net, in the first nine months of 2008 amounted to approximately NIS 1,297 thousand, compared to approximately NIS 1,208 thousand in the corresponding period in 2007. In the quarter ended September 30, 2008 an intangible asset was recognized in respect of development costs amounting to approximately NIS 1,807 thousand, when conditions for recognition as an intangible asset were met for said costs.

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.

Selling and Marketing Expenses

Selling and marketing expenses in the quarter ended September 30, 2008 amounted to approximately NIS 3,146 thousand (about 16% of revenues), compared to approximately NIS 3,169 thousand (about 13% of revenues) in the corresponding quarter in 2007. Selling and marketing expenses in the first nine months of 2008 amounted to approximately NIS 9,108 thousand (about 15% of revenues), compared to approximately NIS 9,794 thousand (about 12% of revenues) in the corresponding period in 2007.Selling and marketing expenses included *inter alia* activity in developing new markets for the systems segment outside of Israel, visiting and participating in trade shows, and other marketing activities in Israel and the world. The Company expects an increase in this item in the upcoming quarters proportionate to the increase in revenues[1].

General and Administrative Expenses

General and administrative item has decreased to approximately NIS 1,123 thousand in the quarter ended September 30, 2008, compared to approximately NIS 1,562 thousand in the corresponding period in 2007. General and administrative expenses in the first nine months of 2008 amounted to approximately NIS 3,921 thousand, compared to approximately NIS 4,732 thousand in the corresponding period in 2007. The main change stems from a decrease in costs of professional consultancy services needed by the Company (mainly due to the conclusion of a number of legal proceedings that were conducted abroad).

Operating profit

A 46% decrease was recorded in operating profit for the quarter ended September 30, 2008, which amounted to approximately NIS 1,322 thousand compared to operating profit of approximately NIS 2,468 thousand in the corresponding quarter in 2007. In the first nine months of 2008 operating profit decreased by approximately 18% amounting to approximately NIS 5,375 thousand, compared to operating profit of approximately NIS 6,558 thousand in the corresponding period in 2007.

The changes in operating profit in the reported period are primarily due to the decrease in Company revenues, offset by the increase in gross profit rate in the first nine months of 2008, as explained above.

Financing Expenses and Revenues

Financing expenses, net, in the quarter ended September 30, 2008 amounted to approximately NIS 4,614 thousand, compared to approximately NIS 2,351 thousand in the corresponding period in 2007. Financing expenses, net, in the first nine months of 2008 amounted to approximately NIS 7,712 thousand, compared to approximately NIS 3,696 thousand in the corresponding period in 2007.

The main increase in this item in comparison with the corresponding period in 2007 stems from revaluation of debentures (Series 2) which are linked to the Israeli Consumer Price Index ("**CPI**") according to the Company's August 2006 prospectus, as well as from erosion of Company revenues deriving from marketable securities, due *inter alia* to the effects of the financial crisis, as detailed above. 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.

[1] 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 likely to prevent this information from being implemented are changes in the Company's marketing plans due to reasons beyond 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 is not active and marketing activities of competitors).

Commencing May 2004 the Company's exposure to fluctuations in the exchange rate of the New Israeli 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 exchange rate (according to a base rate of NIS 4.59 per US$1) and in respect of which repayment of the principal amount commenced 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 Israeli CPI rates increased, following the issuance of debentures (Series 2) according to the August 2006 prospectus, which are linked to the Israeli CPI. In addition to this exposure to fluctuations in the Israeli CPI, 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.

Profit/Loss in the Reported Period

In the first nine months of 2008 the Company recorded loss amounting to approximately NIS 2,337 thousand, compared to a net profit of approximately NIS 2,862 thousand in the corresponding period in 2007 (about 3.6% of revenues). In the reported quarter the Company recorded loss amounting to approximately NIS 3,292 thousand, compared to a net profit of approximately NIS 117 thousand in the corresponding period in 2007.

The Company believes that the decrease in revenues from the systems segment, as explained above, along with the increase in financing expenses, as explained, are the principal causes of the loss in the reported period.

Analysis of Business Results by Operating Segment

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.

Company's Products Segment

Results of the Company's Products Segment in the reported period amounted to approximately NIS 4,992 thousand, compared to approximately NIS 4,880 thousand for the corresponding quarter in 2007. Results of the Company's Products Segment in the first nine months of 2008 amounted to approximately NIS 16,139 thousand, compared to NIS 11,458 thousand for the corresponding period in 2007.

The increase in this Segment results for the reported period is due, in the Company's estimation, to the increase in its revenues from this Segment, offset by the impact of the strengthening of the NIS in relation to the Company's primary sale currencies (USD and Euro) in the reported period.

Company's Systems Segment

Results of the Company's Systems Segment in the reported quarter amounted to a loss of approximately NIS 1,766 thousand, compared to a loss of approximately NIS 665 thousand in the corresponding quarter in 2007. Results of the Company's sSystems Segment in the first nine months of 2008 amounted to a loss of approximately NIS 5,192 thousand, compared to a profit of approximately NIS 1,202 thousand in the corresponding period in 2007.

The loss in this Segment results in the reported period is due, in the Company's estimation, to the decrease in this Segment revenues in the reported period, as explained above, and to fixed expenses required for continued support.

3. Liquidity and Sources of Financing

The balance of cash, cash equivalents and marketable securities of the Company equaled on September 30, 2008 approximately NIS 39,790 thousand, compared to approximately NIS 54,702 thousand as of December 31, 2007. This decrease stems mainly from a negative cash flow since the beginning of the year, as explained below.

Cash flow from operating activities in the quarter ended September 30, 2008 amounted to a positive cash flow of approximately NIS 842 thousand, stemming mainly from depreciation and amortization recorded in the reported period and from an accounting revaluation of marketable securities, offset by the loss for the period, as explained above. In the first nine months of 2008, cash flow from operating activities amounted to a positive cash flow of approximately NIS 4,688 thousand, stemming mainly from a decrease in the trade receivables item as well as from the accumulated loss since the beginning of the year, as explained above.

Cash flow from investing activities in the quarter ended September 30, 2008 amounted to a negative cash flow of approximately NIS 3,649 thousand, primarily due to the acquisition of marketable securities in the reported period and investments in development assets. Cash flow from investing activities in the first nine months of 2008 amounted to a positive cash flow of approximately NIS 1,561 thousand, primarily due to the sale of marketable securities since the beginning of the year, offset by the acquisition of fixed assets and investments in development assets.

Cash flow from financing activities in the quarter ended September 30, 2008 amounted to a negative cash flow of approximately NIS 1,031 thousand, primarily due to repayment of euro-denominated convertible debentures which were issued in February 2001. In the first nine months of 2008 cash flow from financing activities amounted to a negative cash flow of approximately NIS 11,394 thousand, primarily due to repayment of convertible debentures (Series 1), as explained above.

On September 30, 2008, total credit facilities available to the Company for current operations equaled approximately NIS 15 million. On September 30, 2008, a total of approximately NIS 140 thousand was utilized from this credit line mainly for securing the Company's obligations in projects carried out by the Systems Department.

The Company's Board of Directors determined, after examining the four warning signs set out in the directive of the Israeli Securities Authority with respect to disclosure of the forecast cash flow for financing the payment of a company's obligations, that the Company does not have liquidity difficulties.

4. <u>Qualitative Report Concerning Exposure to Market Risk and Handling of Risk Management</u>

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.

<u>Exposure to Exchange Rate Fluctuations</u>

The Company is exposed to exchange rate fluctuations, mainly changes in the rate of the USD and the Euro to the NIS, for the reasons detailed below:

In May 2004 the Company issued convertible debentures (Series 1) according to the 2004 prospectus. The principal and interest of these debentures are linked to the representative exchange rate of the US dollar (according to a base rate of NIS 4.59 per US$ 1); the repayment of the principal of the debentures began in May 2007. Up to their full conversion or full repayment by May 2010, the Company is exposed to fluctuations in the dollar exchange rate in relation to the shekel. On November 23, 2007 the Company executed an interest payment in respect of this debenture, and on May 23, 2008 the Company executed a second payment of principal and an interest payment in respect of this debenture.

On February 2001, the Company issued euro-denominated convertible debentures. On December 2003, 75% of the principal of these debentures were converted into Company shares. Until their conversion or their full repayment beginning in May 2006 and up until August 2008, the Company was exposed to fluctuations in the exchange rate of the Euro against the NIS. The Company paid, on August 5, 2008, the tenth and final payment out of ten payments of the principal and interest on these debentures. Following this payment, there are no remaining outstanding debentures of this class.

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

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 acquisition of rights in the Company's facilities at Airport City, of which approximately 50% are denominated in US dollars and approximately 50% in Euro.

The Company's activity is conducted in foreign currency or in NIS linked to foreign currency. In the Company's Products Segment, revenues are denominated in US dollars or linked to the US dollar exchange rate, with the exception of revenues deriving from sales in Europe, which are mostly denominated in Euro. In the Company's Systems Segment, most of the Company's revenues derive from sales denominated in Euro or linked to the Euro exchange rate.

The raw materials required for the manufacture of the Company's products mainly include various electronic and mechanical components, and their prices are denominated mostly in foreign currency, particularly in US dollars and Euro.

The exchange rate of the USD in relation to the NIS was at the beginning of the reported period, on December 31, 2007, NIS 3.8460 per one USD; at the end of the reported period, on September 30, 2008, it was NIS 3.4210 per one USD; and immediately prior to the publication of this report it was NIS 3.9690 per one USD (as of November 25, 2008).

The exchange rate of the Euro in relation to the NIS was at the beginning of the reported period, on December 31, 2007, NIS 5.6592 per one Euro; at the end of the reported period, on September 30, 2008, it was NIS 4.9998 per one Euro; and immediately prior to publication of this report it was NIS 5.0946 per one euro (as of November 25, 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

Part of the Company's financial means are invested in marketable securities. Exceptional developments in capital markets in Israel and abroad can cause fluctuations in the prices of the marketable securities on the Stock Exchange, and consequently could affect the Company's financing income/expenses.

Interest Risks

The Company has various loans relating to the acquisition of rights in the Company's facilities in 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 Company’s Systems Segment, the Company usually links the payment terms (dates/ foreign currency) of the various customers 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 to the dollar cannot by itself secure the Company's liabilities in respect of convertible 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 (whereas the representative exchange rate of the dollar on the payment date stood at only NIS 3.9910 per USD).

On May 23, 2008, the Company repaid a further 25% of the total nominal principal of convertible debentures (Series 1), amounting to NIS 8,750 thousand at the base rate, which is, as stated, NIS 4.59 per USD (whereas the representative exchange rate of the dollar on the payment date stood at only NIS 3.333 per USD). After this payment, the remaining 50% of total nominal principal for these debentures amounts to NIS 17,500 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 obligations in respect of convertible debentures (Series 1) was found by the Company not to be profitable in view of the high costs involved.

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

5. Linkage Basis Report

								Consolidated linkage basis report
As of September 30, 2008								
Foreign Currency						Israeli Currency		
Total	Non-Monetary Balances	In Other Curr-encies	In USD	In Euro		CPI-Linked	Unlinked	
NIS in thousands								
								Assets
10,629	-		4,508	4,187		-	1,934	Cash and cash equivalents
29,161	-		1,448	--		20,785	6,928	Marketable securities
9,554	-		2,404	4,633		-	2,517	Trade receivables and income receivable
1,053	175		78	-		-	800	Accounts receivable and debit balances
13,414	13,414		-	-		-	-	Inventory
208	208		-	-		-	-	Inventory of work in progress
240	240		-	-		-	-	Long-term deposits
18,431	18,431		-	-		-	-	Fixed assets, net
15,846	15,846		-	-		-	-	Other assets and deferred expenses, net
98,536	48,314		8,438	8,820		20,785	12,179	Total assets
								Liabilities
16,970	-	-	9,123	462		7,342	43	Short-term credit and current maturities of long-term loans
9,244	-		949	801		-	7,494	Trade payables
173	173		-	-		-	-	Option warrants
9,528	2,857		289	-		-	6,382	Accounts payable and credit balances
6,898	-		3,080	3,805		13	-	Long-term loans
7,665	-		7,665	-		-	-	Convertible debentures
25,937	-		-	-		25,937	-	Debentures
610	-		-	-		-	610	Liabilities for employee termination benefits, net
77,025	3,030		21,106	5,068		33,292	14,529	Total liabilities
21,511	45,284		(12,668)	3,752	0	(12,507)	(2,350)	Balance sheet total, net

6. Sensitivity Tests of Financial Instruments as of September 30, 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.
The market factor tests were based on the model specified.

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 thousand		NIS in thousands	Profit (loss) due to change, NIS in thousand		
-10% NIS 3.079 per $	-5% NIS 3.25 per $	Fair value NIS 3.421 per $	+5% NIS 3.592 per $	+10% NIS 3.763 per $	
-451	-225	4,508	225	451	Cash and cash equivalents
-145	-72	1,448	72	145	Marketable securities
-240	-120	2,404	120	240	Trade receivables and income receivable
-8	-4	78	4	8	Other accounts receivable
37	19	-9,123	-19	-37	Short-term credit and current maturities of long-term liabilities (*)
95	47	-949	-47	-95	Trade payables
29	14	-289	-14	-29	Accounts payable and credit balances
308	154	-3,080	-154	-308	Long-term loans
-	-	-7,665	-	-	Convertible debentures (**)
-375	-187	-12,668	187	375	Total

* 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 thousand		NIS in thousands	Profit (loss) due to change, NIS in thousand		
-10% NIS 4.50 per €	-5% NIS 4.75 per €	Fair value NIS 4.9998 per €	+5% NIS 5.25 per €	+10% NIS 5.5 per €	
-419	-209	4,187	209	419	Cash and cash equivalents
-463	-232	4,633	232	463	Trade receivables and income receivable
46	23	-462	-23	-46	Short-term credit and current maturities of long-term liabilities
80	40	-801	-40	-80	Trade payables
381	190	-3,805	-190	-381	Long-term loans
-375	-188	3,752	188	375	Total

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 thousand		NIS in thousands	Profit (loss) due to change, NIS in thousand		
-10% 179.586 points	-5% 189.56 points	Fair value 199.54 points	+5% 209.517 points	+10% 219.49 points	
-2,079	-1,039	20,785	1,039	2,079	Marketable securities
421	367	-7,342	-367	-734	Short-term credit and current maturities of long-term liabilities
1	1	-13	-1	-1	Long-term loans
1,487	1,297	-25,937	-1,297	-2,594	Debentures (***)
-170	625	-12,507	-626	-1,250	Total

*** 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%	
-922	-461	9,218	461	922	Local - government
-1,994	-997	19,944	997	1,994	Local - corporate
-2,916	-1,458	29,161	1,458	2,916	Total

7. **Impact of Transition to IFRS on Company's Financial Status and Operating Results**

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter: "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 Israeli Securities Authority relating to disclosure on adoption of IFRS, a reporting company is required to include in the Board of Directors' report information on any 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 Board of Directors' report on which there is 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 for the reported period and Note 31 to the financial statements of the 2007 Annual Report):

1. **Fixed Assets and Other Assets**: The Company holds leasing rights to the Company floors in “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, the Company acquired a capitalized leasing right (91%) in the Company floors for 49 years. With the transition to reporting under IFRS as of January 1, 2007, there was an increase in the balance of prepaid expenses (recorded under other assets and deferred expenses, net) in respect of operating lease in the amount of approximately NIS 3,020 thousand. Concurrently, the balance of fixed assets balance as of the same date decreased by approximately NIS 3,471 thousand, and the net difference in the amount of approximately NIS 451 thousand was carried to retained earnings.

   No material changes were recorded in these items as of September 30, 2008 and as of December 31, 2007.

2. **Option warrants:** Pursuant to Israeli generally accepted accounting principles, the Company's shareholders’ equity includes proceeds in the amount of approximately NIS 1,138 thousand which were received in respect of option warrants issued by the Company to investors in 2004, whose exercise price is linked to the US dollar, and in respect of option warrants issued by the Company in 2006, whose exercise price is linked to the Israeli CPI.

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

   With the transition to IFRS, as of January 1, 2007, the proceeds from said option warrants in the amount of approximately NIS 1,138 thousand, that were included within the shareholders’ equity, were deducted and recognized as a liability in the amount of approximately NIS 1,829 thousand, which represents the fair value of the option warrants as of that date. The difference of approximately NIS 691 thousand between said amounts was carried to retained earnings. Also, as of June 30, 2007, an increase of approximately NIS 1,468 thousand was recorded in this item compared to the amount recorded according to Israeli standards, and as of December 31, 2007, an increase of approximately NIS 211 thousand was recorded in this item compared to the amount recorded according to Israeli standards.

It is noted that the presentation of the option warrants, as stated, at fair value at each balance sheet date, including in this report, may cause material fluctuations in the financial revenues (expenses) of the Company.

3. **Conversion Component of Debentures Convertible into Shares:** In May 2004 the Company issued debentures convertible into ordinary shares of the Company. The debentures and their conversion price are linked to the US dollar 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 debenture issuance were split into these components in the manner 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 NIS terms (the Company's functional currency), 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," at fair value, while changes in the fair value of this component will be recognized in the income statement in each period.

   Accordingly, with the transition to IFRS, as of January 1, 2007, the liabilities presented as a convertible debenture decreased in the amount of approximately NIS 584 thousand, the share premium increased in the amount of approximately NIS 1,808 thousand, the equity component that was allocated to this instrument pursuant to Standard 22, as above (which was presented under "receipts on account of option warrants"), in the amount of approximately NIS 235 thousand, was cancelled, and a liability in respect of the conversion component in the amount of approximately NIS 1,003 thousand was created as of January 1, 2007, against an increase in retained earnings in the amount of approximately NIS 1,992 thousand. Furthermore, as of September 30, 2007, an increase of approximately NIS 117 thousand was recorded in the conversion component compared to the amount recorded according to Israeli GAAP, and as of December 31, 2007, an increase of approximately NIS 1 thousand was recorded in this item compared to the amount recorded according to Israeli standards.

   It is noted that the presentation of the conversion component, as stated, at fair value at each balance sheet date, including in this report, may cause material fluctuations in the financial revenues (expenses) of the Company.

4. **Liability for Employee Severance Benefits:** In accordance with Israeli Generally Accepted Accounting Principles, the Company's severance pay liability is calculated based on the most recent salary of the employee multiplied by the number of years of employment (one monthly salary for each year of employment), as of each balance sheet

date, and the reserved amounts accumulated against this liability are calculated 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” as set forth in IAS 19. Therefore, the liability for employee severance benefits, under the plan, is measured on an actuarial basis and takes into account, *inter alia*, future wage increments and employee termination rates. The measurement is carried out by discounting the expected future cash flows, using interest rates on NIS-linked government debentures,, since the Company estimates that there is not a large enough or negotiable market sufficient to obtain solid discounted rates of return whose repayment date is close to the period of liabilities for severance benefits. In addition, the reserved amounts are measured at fair value.

As allowed 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 recognized all the net actuarial gains/losses as of January 1, 2007 under retained earnings. 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 reporting under IFRS as of January 1, 2007 included the full amounts of its net actuarial liability in respect of the plan. The net difference between the amount of net liabilities measured as aforesaid, in respect of employeeseverance benefits under IAS 19, as of January 1, 2007, and the amount at which they are presented under Israeli Generally Accepted Accounting Principles, which amounts to a decrease of approximately NIS 1,135 thousand in said liabilities, was carried, upon the transition to IFRS on the aforesaid date, to retained earnings. In addition, as of September 30, 2007, a decrease of approximately NIS 1,361 thousand was recorded in this item compared to the amount recorded according to Israeli Generally Accepted Accounting Principles, and as of December 31, 2007, a decrease of approximately NIS 1,529 thousand was recorded in this item compared to the amount recorded according to Israeli Generally Accepted Accounting Principles.

5. **Financing revenues and expenses:** With the transition to IFRS, net financial expenses as of September 30, 2008 increased in the amount of approximately NIS 130 thousand, compared to the report according to Israeli Generally Accepted Accounting Principles, mainly due to the changes, explained above, in option warrants and conversion component of debentures convertible into shares.

   Also, as of December 31, 2007, net financial expenses in the report according to IFRS decreased in the amount of approximately NIS 3,091 thousand compared to the report according to Israeli standards, mainly due to the changes, explained above, in option warrants and conversion component of debentures convertible into shares, and due to the adoption of IAS 39, which requires separation of compounded derivatives from selling transactions that are not in the functional currency 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 qualification.
2. Ms. Bareket Shani – Director with professional qualification, 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. Mr. Zvi Livneh, CPA – Director with accounting proficiency, member of the Audit Committee.
4. Mr. Ron Mishael, CPA – External director with accounting proficiency, member of the Audit Committee and of the Credit and Investment Committee of the Company's Board of Directors.
5. Mr. Moshe Braz, CPA –External director with accounting proficiency, member of the Audit Committee and of the Securities Committee of the Company's Board of Directors.
6. Mr. Joel Sela – External director with accounting proficiency, member of the Audit Committee and of the Credit and Investment 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.

Zvi Livneh Director	Haim Shani Chairman and CEO

Date: November 26, 2008

UNITRONICS (1989) (R"G) LTD.

Financial Statements
As at September 30, 2008

(Unaudited)

Unitronics (1989) (R"G) Ltd.

Financial Statements

As at September 30, 2008

(unaudited)

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

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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 September 30, 2008, 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, 2008 represent approximately 5% of the total assets included in the Consolidated Interim Balance Sheet and whose income for the nine month period ended September 30, 2007 represents approximately 19% 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 accountants, 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 Standards (IFRS) as defined in IAS 34 ("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)

November 26, 2008

Unitronics (1989) (R"G) Ltd. Consolidated Balance Sheets	September 30, 2008	September 30, 2008	September 30, 2007	December 31, 2007
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro (1)	NIS		
Current assets				
Cash and cash equivalents	2,125	10,629	5,097	16,085
Marketable securities	5,834	29,161	43,476	38,617
Accounts receivable -				
Trade	1,911	9,554	26,863	13,995
Other	211	1,053	633	249
Inventory	2,683	13,414	14,546	12,980
Inventory - work in progress	42	208	102	319
	12,806	64,019	90,717	82,245
Non-current assets				
Long-term deposits	48	240	444	444
Property and equipment, net	3,686	18,431	18,920	18,724
Other assets, net	3,169	15,846	9,656	11,487
	6,903	34,517	29,020	30,655
Total assets	**19,709**	**98,536**	**119,737**	**112,900**
Current liabilities				
Credit from banks and others	3,394	16,970	12,330	11,775
Accounts payable -				
Trade	1,849	9,244	18,759	12,630
Other	1,906	9,528	9,520	8,230
Warrants	35	173	1,367	211
	7,184	35,915	41,976	32,846
Long-term liabilities				
Long-term debt from banks and others	1,380	6,898	9,047	8,578
Convertible bonds	1,533	7,665	15,280	15,609
Conversation option of convertible bonds	-	-	117	1
Bonds	5,188	25,937	30,814	30,941
Accrued severance pay, net	122	610	440	161
	8,223	41,110	55,698	55,290
Shareholders' equity				
Share capital	70	352	352	352
Capital reserves	65	326	313	323
Share premium	10,051	50,250	50,250	50,250
Capital reserve from translation of foreign operations	(255)	(1,271)	(251)	(584)
Company shares held by the company	(586)	(2,931)	(2,740)	(2,853)
Accumulated loss	(5,043)	(25,215)	(25,861)	(22,724)
	4,302	21,511	22,063	24,764
Total liabilities and shareholders' equity	**19,709**	**98,536**	**119,737**	**112,900**

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

Approved: november 26, 2008.
(1) See note 1E.
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,
	2008	2008	2007	2008	2008	2007	2007
	(unaudited)	(unaudited)		(unaudited)	(unaudited)		(audited)
				(in thousands)			
	Convenience translation into Euro (1)	NIS		Convenience translation into Euro (1)	NIS		
Revenues	11,871	59,354	79,458	3,876	19,380	24,013	102,268
Cost of revenues	7,931	39,653	57,166	2,657	13,283	16,407	70,865
Gross profit	3,940	19,701	22,292	1,219	6,097	7,606	31,403
Development expenses, net	259	1,297	1,208	101	506	407	1,647
Selling & marketing expenses	1,822	9,108	9,794	629	3,146	3169	13,567
General & administrative expenses	784	3,921	4,732	225	1,123	1,562	6,576
Operating profit	1,075	5,375	6,558	264	1,322	2,468	9,613
Financial income	140	702	1,853	47	237	345	4,695
Financing expenses	1,683	8,414	5,549	970	4,851	2,696	8,650
Profit (loss) for the period	(468)	(2,337)	2,862	(659)	(3,292)	117	5,658
Profit (loss) per 1 ordinary share NIS 0.02 par value	(0.042)	(0.211)	0.259	(0.060)	(0.298)	0.014	0.511

(1) See note 1E.

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)
Actuarial 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
Purchase of company shares by the company	-	-	-	-	(78)	-	(78)
Benefit arising from warrants granted	-	3	-	-	-	-	3
Translation of foreign operations	-	-	-	(687)	-	-	(687)
Actuarial loss	-	-	-	-	-	(154)	(154)
Profit for the period	-	-	-	-	-	(2,337)	(2,337)
Balance at September 30, 2008 (unaudited)	352	326	50,250	(1,271)	(2,931)	(25,215)	21,511
Balance at January 1, 2007 (audited)	352	279	50,250	-	(2,640)	(28,723)	19,518
Purchase of company shares by the company	-	-	-	-	(100)	-	(100)
Benefit arising from warrants granted	-	34	-	-	-	-	34
Translation of foreign operations	-	-	-	(251)	-	-	(251)
Profit for the period	-	-	-	-	-	2,862	2,862
Balance at September 30, 2007 (unaudited)	352	313	50,250	(251)	(2,740)	(25,861)	22,063

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 July 1, 2008 (unaudited)	352	326	50,250	(1,347)	(2,853)	(21,769)	24,959
Purchase of company shares by the company					(78)		(78)
Translation of foreign operations	-	-	-	76	-	-	76
Actuarial loss	-	-	-	-	-	(154)	(154)
Profit for the period	-	-	-	-	-	(3,292)	(3,292)
Balance at September 30, 2008 (unaudited)	352	326	50,250	(1,271)	(2,931)	(25,215)	21,511
Balance at July 1, 2007 (unaudited)	352	303	50,250	137	(2,740)	(25,978)	22,324
Benefit arising from warrants granted	-	10	-	-	-	-	10
Translation of foreign operations	-	-	-	(388)	-	-	(388)
Profit for the period	-	-	-	-	-	117	117
Balance at September 30, 2007 (unaudited)	352	313	50,250	(251)	(2,740)	(25,861)	22,063

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
	Convenience translation into Euro, in thousands (unaudited) (1)						
Balance at January 1, 2008	70	65	10,051	(117)	(570)	(4,545)	4,954
Translation of foreign operations	-	-	-	(138)	-	-	(138)
Purchase of company shares by the company	-	-	-	-	(16)		(16)
Actuarial loss	-	-	-	-	-	(30)	(30)
Loss for the period	-	-	-	-	-	(468)	(468)
Balance at September 30, 2008	70	65	10,051	(255)	(586)	(5,043)	4,302
	Convenience translation into Euro, in thousands (unaudited) (1)						
Balance at July 1, 2008	70	65	10,051	(270)	(570)	(4,354)	4,992
Translation of foreign operations	-	-	-	15	-	-	15
Purchase of company shares by the company	-	-	-	-	(16)	-	(16)
Actuarial loss	-	-	-	-	-	(30)	(30)
Loss for the period	-	-	-	-	-	(659)	(659)
Balance at September 30, 2008	70	65	10,051	(255)	(586)	(5,043)	4,302

(1) See note 1E.

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Cash Flows	For the 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,
	2008	2008	2007	2008	2008	2007	2007
	(unaudited)	(unaudited)		(unaudited)	(unaudited)		(audited)
				(in thousands)			
	Convenience translation into Euro (1)	NIS		Convenience translation into Euro (1)	NIS		
Profit for the period	(468)	(2,337)	2,862	(659)	(3,292)	117	5,658
Adjustments necessary to show the cash flows from operations (Appendix A)	1,405	7,025	(4,706)	826	4,134	1,200	2,201
Cash flows provided by (used in) operating activities	937	4,688	(1,844)	167	842	1,317	7,859
Sale of (investment in) marketable securities, net	1,643	8,214	(13,963)	(318)	(1,591)	881	(9,030)
Changes in restricted cash, net							
Purchase of property and equipment	(201)	(1,005)	(1,743)	(45)	(224)	(159)	(1,977)
Sale of equipment	-	-	(187)	-	-	(49)	(201)
Repayment of long-term deposits	10	52	82	3	17	42	73
Investment in other assets	(1,140)	(5,700)	(6,066)	(370)	(1,851)	(2,267)	(8,022)
Cash flows provided by (used in) investing activities	312	1,561	(21,877)	(730)	(3,649)	(1,552)	(19,177)
Repayment of long-term loans	(146)	(731)	(837)	(48)	(238)	(268)	(1,229)
Short-term credit from banks, net	9	43	-	(2)	(11)	-	-
Repayment of convertible bonds	(2,126)	(10,628)	(10,103)	(141)	(704)	(516)	(10,723)
Purchase of company shares by the company	(16)	(78)	(100)	(16)	(78)	-	(213)
Cash used in financing activities	(2,279)	(11,394)	(11,040)	(207)	(1,031)	(784)	(12,165)
Translation differences in respect of subsidiary cash balances	(62)	(311)	(48)	(3)	(16)	(148)	(338)
Change in cash and cash equivalents	(1,092)	(5,456)	(34,809)	(773)	(3,854)	(1,167)	(23,821)
Cash and cash equivalents at beginning of period	3,217	16,085	39,906	2,898	14,483	6,264	39,906
Cash and cash equivalents at end of period	2,125	10,629	5,097	2,125	10,629	5,097	16,085

(1) See note 1E.

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Cash Flows	For the 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,
	2008	2008	2007	2008	2008	2007	2007
	(unaudited)	(unaudited)		(unaudited)	(unaudited)		(audited)
	(in thousands)						
	Convenience translation into Euro (1)	NIS		Convenience translation into Euro (1)	NIS		
Appendix A - Adjustments necessary to show the cash flows from operations							
Depreciation and amortization	787	3,935	3,045	323	1,615	719	4,561
Loss (profit) from marketable securities, net	248	1,242	877	295	1,473	1,326	803
Benefit arising from warrants granted							
Capital gain	1	3	34	-	-	10	44
Increase in accrued severance pay, net	59	294	(53)	45	229	(111)	10
Reevaluation of warrants and conversion option of convertible bonds	(8)	(39)	(1,348)	(1)	(4)	(516)	(2,620)
Long-term debt and convertible bonds exchange rate differences	114	568	704	118	592	460	211
Reevaluation of embedded derivatives	173	864	(149)	146	730	59	(103)
Increase in accounts receivable - trade	825	4,125	(10,225)	34	172	2,197	2,799
Decrease (increase) in accounts receivable - other	(133)	(664)	38	(70)	(349)	400	394
Decrease (increase) in inventory	(128)	(641)	(745)	36	178	(1,714)	774
Decrease (increase) in inventory - work in progress	(9)	(43)	92	(4)	(22)	65	(125)
Increase (decrease) in accounts payable - trade	(678)	(3,390)	6,649	192	960	3,105	517
Increase (decrease) in accounts payable - other	154	771	(3,625)	(288)	(1,440)	(4,800)	(5,064)
	1,405	7,025	(4,706)	826	4,134	1,200	2,201

(1) See note 1E.

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Cash Flows	For the 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,
	2008	2008	2007	2008	2008	2007	2007
	(unaudited)	(unaudited)		(unaudited)	(unaudited)		(audited)
				(in thousands)			
	Convenience translation into Euro (1)	NIS		Convenience translation into Euro (1)	NIS		
Appendix B - Additional information							
Cash paid during the period for:							
Interest	778	3,890	4,125	309	1,544	1,267	5,376
Taxes on income	16	81	81	5	27	27	108
Cash received during the period for:							
Interest	366	1,830	2,065	182	912	357	2,480

(1) See note 1E.

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 interim financial statements for part of the period included in the first annual statements witch will be prepared as at December 31, 2008, 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. Adoption of IFRS

These financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter: "IFRS"), in a condensed format as at September 30, 2008 and for the nine and three months period 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.

C. The interim consolidated financial statements includes the disclosure in accordance with chapter D to the Securities Regulations (Periodic and Immediate Reports) - 1970.

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

As of	**Israeli CPI**	**Exchange rate of one Euro**	**Exchange rate of one U.S. dollar**
	Points (*)	**NIS**	**NIS**
September 30, 2008	199.54	4.9998	3.421
September 30, 2007	189.10	5.6898	4.013
December 31, 2007	191.15	5.6592	3.846
Change during the period	%	%	%
September 2008 (nine months)	4.39	(11.65)	(11.05)
September 2007 (nine months)	2.29	2.26	(5.02)
September 2008 (three months)	2.00	(5.39)	2.06
September 2007 (three months)	1.30	(0.41)	(5.55)
December 2007 (12 months)	3.40	1.71	(8.97)

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

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

Note 1 - General (cont'd)

E. 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, 2008 (EURO 1 = NIS 4.9998).

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

Note 2 - Significant Accounting Policies

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 "N" 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.

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.

Note 2 - Significant Accounting Policies (cont'd)

B. Functional currency and foreign currency (cont'd)

1. Functional currency (cont'd)
   - 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.

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.

1. 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.

Note 2 - Significant Accounting Policies (cont'd)

D. Financial instruments - classification and measurement (cont'd)

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

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

b. Investments held to redemption

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

c. Loans and receivables

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

Note 2 - Significant Accounting Policies (cont'd)

D. Financial instruments - classification and measurement (cont'd)

d. Financial instruments available for sale

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

2. 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.

3. Financial instruments disposal

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

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

If the control of the asset kept by the company, the company will continue recognizing the asset according to the continuing involvement of the Company in the asset.

Financial liability (or part of financial liability) will remove if, and only if, it extinguished - i.e. when the liability defined in a contract invalid, cancelled of expired.

4. 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.

Note 2 - Significant Accounting Policies (cont'd)

D. Financial instruments - classification and measurement (cont'd)

5. 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.

6. Issue of a parcel

On an issue of securities in a parcel, the consideration received (before issue expenses) is allotted to the components of the securities issued in a parcel according to the following order of allotment: fair value is determined first for financial derivatives (such as warrants with an exercise addition in a currency which is different from the Company's functional currency) and other financial instruments which are periodically presented at fair value, thereafter the fair value for the financial liabilities and complex instruments (such as convertible bonds) which are not periodically presented at fair value, but at present value. The consideration allotted for capital instruments is determined as residual value, according to the difference obtained between the total consideration and the relevant consideration allotted as mentioned above. The issue expenses are allotted to every component according to the ratio of amounts determined for every component, as mentioned above, less the tax effect – if there is one regarding capital instruments. After such an allotment, every component is handled according to its contractual nature (financial liability or capital instrument).

7. 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.

Financial instruments available for sale

If there is objective proof that there is a loss from an impairment in value, the amount of the loss is measured as the difference between the cost (less payments of principal and any amortization), and between the fair value less any loss from an impairment in value recorded in the past to the statement of operations. This loss is transferred from shareholders' equity to the statement of operations. During consecutive periods, the cancellation of the loss from the impairment in value, regarding capital instruments, is not recorded to the statement of operations, and the cancellation of the loss from the impairment in value for debt instruments is recorded to the statement of operations, if the increase in the fair value of the instrument can be objectively related to an event which occurred after the loss from the impairment in value was recorded to the statement of operations.

Note 2 - Significant Accounting Policies (cont'd)

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. 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 - "leasing".

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).

I. 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 (H) above.

Note 2 - Significant Accounting Policies (cont'd)

I. Fixed assets (cont'd)

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 (K) 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.

J. 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.

Software
Acquired licenses for computers software are recognized as an asset according to the acquisition costs and related costs. Depreciation is calculated at equal annual rates by the straight-line method over the expected useful life of the asset.

Research and development expenses
Expenditure on research is recognized as an expense when it is incurred. Expenditure arising from development (relating to design and examination of new or improved products) is recognized if, and only if, an entity can demonstrate all of the following:

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

Other development costs, which not meat the above conditions, are recognized as expenses when it is incurred. Expenditure on an intangible item that was initially recognized as an expense shall not be recognized as part of the cost of an intangible asset at a later date. Capitalized development expenses are recognized as an intangible asset. Amortization shall begin when the asset is available for use and is calculated at equal annual rates by the straight-line method over the expected useful life of the asset.

Note 2 - Significant Accounting Policies (cont'd)

J. Intangible assets (cont'd)

Development assets shall be reviewed at least at each financial year-end for impairment in value according to IAS36 "impairment of assets".

Amortization

The useful lifespan of intangible assets is as follows:

	Years
Software	3
Patents and licenses	3

K. 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.

L. 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.

M. Taxes on income

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

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

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

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

Note 2 - Significant Accounting Policies (cont'd)

M. Taxes on income (cont'd)

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.

N. 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.

O. Recognition of revenues

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

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

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

Note 2 - Significant Accounting Policies (cont'd)

O. Recognition of revenues (cont'd)

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

P. Discounts to customers

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

Q. 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.

R. 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.

S. 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.

   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.

Note 2 - Significant Accounting Policies (cont'd)

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

2. IAS 23 (amended) - Financing costs
According to the amended IAS 23, it is obligatory to capitalize financing 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 a significant 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.

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

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.

Note 2 - Significant Accounting Policies (cont'd)

S. 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 (cont'd)

- 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 a significant effect on the financial condition, results of operations and cash flows.

6. IFRS 1 (amended) - First adoption of the IFRS and IAS 27 (amended) - separate and consolidated financial statements

According to the amendment to the Standards, an exemption was added to the retrospective implementation of IFRS standards on the opening balance sheet, according to IFRS 1 on the transition date to first reporting in accordance with IFRS Standards in the separate financial statements (the "Solo" financial statements). According to the exemption, in these financial statements, the cost of the investment in subsidiaries, in companies with joint control and in affiliated companies, can be determined, apart from the historical cost basis or fair value basis, also at considered cost based on the book value of the investment as presented in accordance with previous generally accepted accounting principles, i.e. by the equity method. This choice can be done for every investment separately. Furthermore, a dividend from investments in companies mentioned above will be recognized in the separate financial statements as revenues without distinguishing whether distributed from accumulated profits before the date of the acquisition of the investment or thereafter. The Standard will be adopted in the separate financial statements as mentioned above on the transition date of January 1, 2008 and thereafter. Earlier adoption is possible.
In the Company's opinion, the amended Standard is not expected to have a significant effect on the financial condition, results of operations and cash flows.

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

7. 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 a significant effect on its financial condition, results of operations and cash flows.

8. IFRS 5 (amended) - Non current assets held for sale and discontinued operations

According to the amendment to IFRS 5, when the parent company decides to realize part of its holdings in a subsidiary in such a way that after the realization the parent company will remain with a holding which does not give it control, such as rights which provide a significant influence, all the assets and liabilities relating to the subsidiary will be classified as held for sale and the relevant provisions of IFRS 5 will be applied, including presenting them as discontinued operations. The amendment to the Standard will be applied ‘from here on’ from the financial statements for periods starting January 1, 2010. Earlier adoption is possible.

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

9. IAS 12 (amended) - Government grants

According to the amendment to IAS 12, a loan that the Company received from the State without interest or with a lower interest than market interest will be handled on the first date of recognition and for following periods according to the provisions of IAS 39 - "Financial Instruments - Recognition and Measurement". Therefore, the loan will first be recognized at fair value while discounting it according to market interest. The difference between the amount of the loan received and its fair value will be handled from now on as a government grant according to the provisions of the Standard. The Standard will be applied 'from-here-on' from financial statements for periods starting January 1, 2009 regarding government loans received after that date. Earlier adoption is possible.

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

10. IAS 19 (Amended) - Benefits to employees

According to the amendment to IAS 19, the group of other long-term benefits will include also benefits to employees where their entitlement to them comes into existence in the short-term, but the date of the expected utilization occurs after a year from the end of the period entitling them to the benefit, such as benefits for accumulated leave pay and sick pay which are expected to be utilized during a period after a year after the balance sheet date. Therefore, these benefits will be debited from now on as recognized in the financial statements, according to an actuarial calculation considering future salaries and discounting it to the present value. The Standard will be applied retrospectively as from the financial statements for periods starting January 1, 2009. Earlier adoption is possible.

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

Note 2 - Significant Accounting Policies (cont'd)

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

11. IAS 28 (Amended) - Investments in affiliated companies

According to the amendment to IAS 28, examining impairment in value of an investment in an affiliated company will be done considering the total investment. Accordingly, a loss recognized from an impairment in value of an investment will not be allotted specifically to goodwill included in the investment, but will be related to the total investment and, therefore, the full loss from the impairment in value recognized in the past may be cancelled on the existence of the required conditions. The amendment to the Standard can be implemented retrospectively or 'from-here-on' as from the financial statements for periods starting January 1, 2009. Earlier adoption is possible.

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

12. IAS 38 (Amended) - Intangible assets

According to the amendment to IAS 38, expenses spent for advertising, marketing or sales promotions will be recognized as an expense on the date on which the Company has access to the advertising products or when the service for these operations is provided to the Company.
For this purpose, such activities also include the production of catalogs and advertising pamphlets. Furthermore, the assumption, which is rare, if at all, that amortization on an intangible asset with a defined lifespan by the unit of production method will be lower than the straight-line method was cancelled and, therefore, will enable amortization according to product units without the above restriction. The Standard will be implemented retrospectively as from financial statements for periods starting January 1, 2009. Earlier adoption is possible.

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

13. IAS 39 (Amended) - Financial instruments: Recognition and Measurement

According to the amendment to IAS 39, it is possible to earmark as a defined item, changes in cash flows or changes in fair value of a one-sided risk, i.e. a risk defined as a risk exposed to fluctuations of over or under a certain price or a defined variable. The amendment also clarifies that it is possible earmark an inflationary component as a separate risk on condition that it is contractually specified in cash flows of bonds linked to the index, so that it is possible to identify it separately and reliably measured should the other cash flows of the instrument not be affected by the index component. The amendment must be adopted retrospectively for annual periods starting July 1, 2009 or thereafter. Earlier adoption is possible.

14. 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.

Note 2 - Significant Accounting Policies (cont'd)

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

15. IFRIC 14 - Restrictions on a defined benefit asset, minimum financing requirements and the inter-relationships between them

IFRIC 14 (hereinafter: "the Clarification") includes instructions to calculate the restriction on the surplus amount which can be recognized as an asset according to IAS 19. In addition, the clarification clarifies how legal and contractual requirements for minimum financing are likely to affect the pension assets and liabilities. The provisions of the clarification apply to annual periods of reports starting after January 1, 2008.

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

16. IFRIC 16 - Hedging a net investment in foreign operations

IFRIC 16 (hereinafter: "the Clarification") stipulates that it is not possible to hedge a risk for a change in the exchange rate relating to the Company's presentation currency, but only relating to its functional currency. Furthermore, it is possible to hedge a risk for a change in the exchange rate relating to the functional currency of every subsidiary in the Group, even if this is controlled indirectly by another company in the Group. Furthermore, it stipulates that a hedging instrument can be held by every company in the Group. The clarification applies to annual financial statements for periods of report starting after January 1, 2009 or thereafter. Early adoption is possible.

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

Note 3 - Business segments

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,
	2008	2008	2007	2008	2008	2007	2007
	(unaudited)	(unaudited)		(unaudited)	(unaudited)		(audited)
				(in thousands)			
	Convenience translation into Euro	NIS		Convenience translation into Euro	NIS		
A. Revenues							
Products	9,819	49,093	42,466	3,250	16,249	15,387	60,041
System integration projects	1,944	9,721	36,464	581	2,907	8,419	41,528
Other	108	540	528	45	224	207	699
	11,871	59,354	79,458	3,876	19,380	24,013	102,268
B. Segment results							
Products	3,228	16,139	11,458	984	4,922	4,880	16,788
System integration projects	(1,038)	(5,192)	1,202	(353)	(1,766)	(665)	971
Other	-	(1)	(48)	(3)	(15)	83	58
Unallocated corporate expenses	(1,115)	(5,571)	(6,054)	(364)	(1,819)	(1,830)	(8,204)
Operating profit	1,075	5,375	6,558	264	1,322	2,468	9,613

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

As described in Note 1B, these financial statements are interim consolidated financial statements for part of the period included in the first annual statements witch will be prepared as at December 31, 2008 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 June 30, 2007 and for the six and three months 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:

<u>Translation differences from foreign operations</u>

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.

<u>Share-based payment</u>

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.

<u>Allocation of financial instruments recognized in the past</u>

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).

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:

Notes		January 1, 2007 (Consolidated)		
		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
7,8	Other	11,444	488	11,932
2b	Warrants	-	1,829	1,829
		35,276	2,317	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)

		September 30, 2007 (Consolidated)		
Notes		Israeli GAAP	Reconciliations	IFRS
			(NIS, in thousands)	
	Current assets			
	Cash and cash equivalents	5,097	-	5,097
	Marketable securities	43,476	-	43,476
	Accounts receivable -			
4	Trade	26,850	13	26,863
1,8	Other	495	138	633
	Inventory	14,546	-	14,546
	Inventory - work in progress	102	-	102
		90,566	151	90,717
	Non current assets			
	Long-term deposits	444	-	444
1,4	Property and equipment	22,410	(3,490)	18,920
1	Other assets, net	6,567	3,089	9,656
		29,421	(401)	29,020
	Total assets	**119,987**	**(250)**	**119,737**
	Current liabilities			
	Current maturities of long-term liabilities	12,330	-	12,330
	Accounts payable -			
	Trade	18,759	-	18,759
7	Other	9,134	386	9,520
2b	Warrants	-	1,367	1,367
		40,223	1,753	41,976
	Long-term liabilities			
	Long-term loans	9,047	-	9,047
2a	Conversion option of convertible bonds	-	117	117
2a,2c	Convertible bonds	15,666	(386)	15,280
	Bonds	30,814	-	30,814
3	Accrued severance pay, net	1,969	(1,529)	440
		57,496	(1,798)	55,698
	Shareholders' equity	22,268	(205)	22,063
	Total liabilities and shareholders' equity	**119,987**	**(250)**	**119,737**

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		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	11,775	-	11,775
	Accounts payable -			
	Trade	12,630	-	12,630
7	Other	7,856	374	8,230
2b	Warrants	-	211	211
		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		Israeli GAAP	Reconciliations	IFRS
		For the nine months period ended September 30, 2007 (consolidated)		
		(NIS, in thousands)		
8	Revenues	79,544	(86)	79,458
7	Cost of revenues	57,153	13	57,166
	Gross profit	22,391	(99)	22,292
	Development expenses, net	1,208	-	1,208
	Selling & marketing expenses	9,794	-	9,794
1,3,6	General & administrative expenses	5,039	(307)	4,732
	Operating profit	6,350	208	6,558
2a,2b,5	Financing income	-	1,853	1,853
2a,4,5,8	Financing expenses	5,412	137	5,549
	Profit for the year	938	1,924	2,862
	Profit per 1 ordinary share NIS 0.02 par value	0.084	0.175	0.259

Notes		Israeli GAAP	Reconciliations	IFRS
		For the three months period ended September 30, 2007 (consolidated)		
		(NIS, in thousands)		
8	Revenues	24,021	(8)	24,013
7	Cost of revenues	16,413	(6)	16,407
	Gross profit	7,608	(2)	7,606
	Development expenses, net	407	-	407
	Selling & marketing expenses	3,169	-	3,169
1,3,6	General & administrative expenses	1,701	(139)	1,562
	Operating profit	2,331	137	2,468
2a,2b,5	Financing income	-	345	345
2a,4,5,8	Financing expenses	3,171	475	2,696
	Profit for the year	(840)	957	117
	Profit per 1 ordinary share NIS 0.02 par value	0.076	0.09	0.014

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		Israeli GAAP	Reconciliations	IFRS
		For the year ended December 31, 2007 (consolidated)		
		(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

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

1. Accumulated losses

	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 September 30, 2007 in accordance with Israeli GAAP		(25,170)
Amortization of prepaid leasing expenses	1	(313)
Benefits to employees	3	1,529
Liability to the Chief Scientist for government grants	7	(385)
Adjustments resulting from the translation of financial statements of foreign operations	4	267
Fair value of the conversion option from convertible bonds presented as a liability, and in the past presented in shareholders' equity	2a,2c	(1,304)
Reevaluation to fair value of option warrants presented as a liability, and in the past presented in shareholders' equity	2b	(229)
Reevaluation of embedded derivatives according to fair value	8	46
Share-based payments	6	(302)
Accumulated loss - as presented in the financial statements as at September 30, 2007 in accordance with IFRS		(25,861)

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
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 September 30, 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 September 30, 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 31, 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. Share premium

	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 September 30, 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 September 30, 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 September 30, 2007 in accordance with generally accepted accounting standards in Israel		11	-	11
Cost of share-based payment	6	302	-	302
Adjustments resulting from translation of financial statements of foreign operations	4	-	(251)	(251)
Balance as presented in the financial statements as at September 30, 2007 in accordance with IFRS		313	(251)	62
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.

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.

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.

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)

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.

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. In addition, the measurement difference decreased the salaries expenses for the year ended December 31, 2007 and for the six and three months period ended June 30, 2007 amount to NIS 250 thousands, NIS 226 thousands and NIS 264 thousands, respectively.

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.

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.

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.

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.

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.