Unitronics (1989)(R”G) LTD.

2007 – Periodic and Annual Report

Table of Contents

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

CHAPTER A - DESCRIPTION OF THE COMPANY'S BUSINESS (Reg. 8A)

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

1.1 Company activity and description of its business development

The Company engages in the design, development, manufacture, marketing, sale and support of industrial automation products, mainly PLCs (programmable logic controllers - hereinafter "**PLCs**"). PLCs are computer-based electronic products (hardware and software) used for command and control of machines and systems performing automatic actions, such as production systems and automatic systems for industrial storage, retrieval and logistics. The Company also provides design, construction and maintenance services within the framework of projects for the automation, computerization and integration of computerized production and/or logistics systems, mainly automated warehouses and distribution centers as well as automated parking systems.

The Company was incorporated in August 1989 as a private company pursuant to the Israeli Companies Ordinance (New Version), 5743-1983 (hereinafter: the **"Companies Ordinance"**), and since then has been primarily engaged in the field of PLCs and in projects involving automation, computerization and integration of computerized production and/or logistics systems. In July 1999 the Company became a public company as defined in the Companies Ordinance. In September 1999 the Company first published a prospectus offering its shares to the public in Belgium, subsequent to which its shares were listed on the Euro.NM stock exchange in Belgium. In 2000, following the establishment of the EuroNext stock exchange in Belgium, trading of the Company's shares was moved to this exchange. In May 2004 the Company published a prospectus in Israel pursuant to which shares, convertible bonds (Series 1) and option instruments (Series 1) of the Company were listed on the Tel Aviv Stock Exchange (hereinafter: the **"2004 Prospectus"**). In August 2006 the Company published a prospectus in Israel pursuant to which bonds (Series 2) and option instruments (Series 2) of the Company were listed on the Tel Aviv Stock Exchange (hereinafter: the **"2006 Prospectus"**) (see section 1.4.6 in this report).

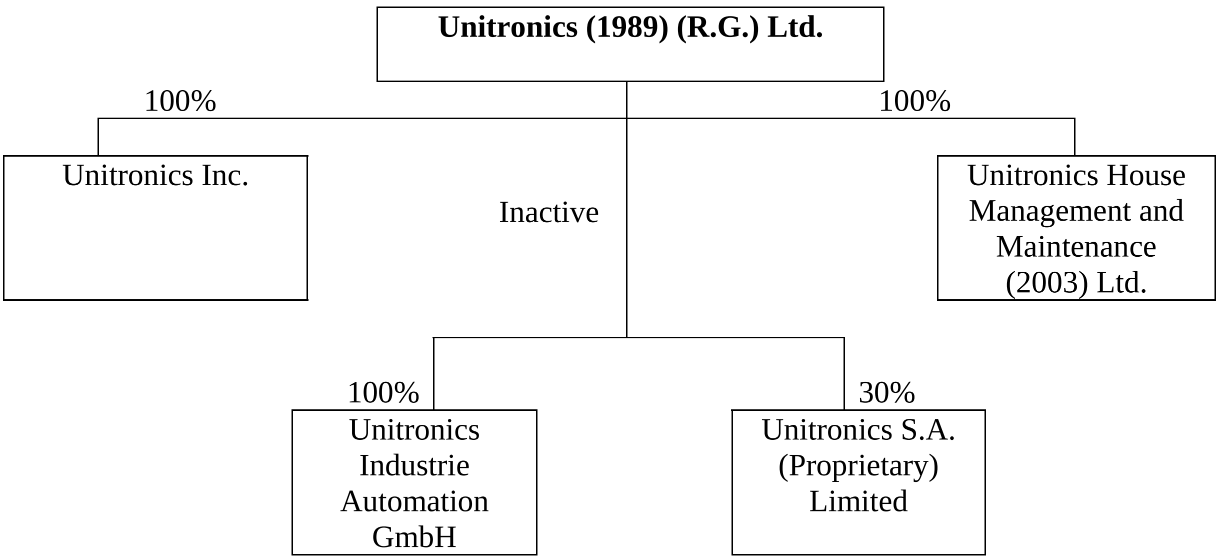
The Company operates from facilities comprising approx. 2,232 square meters in the "**Unitronics House**", an office and industry building situated in Airport City near the

David Ben Gurion Airport, where the Company leases approx. 1,600 square meters from the Israel Land Administration since August 2000 and rents approx. 632 square meters from a controlling shareholder (approx. 196 square meters since August 2004 and an additional approx. 436 square meters since August 2005) (see section 1.12 in this report).

1.2 Subsidiaries and holding diagram

The Company has two wholly owned active subsidiaries: Unitronics Inc., which is incorporated in the United States (Delaware) and engages primarily in coordinating the Company's marketing and distribution operations in the United States, and Unitronics House Management & Maintenance (2003) Ltd., which is primarily engaged in the management and maintenance of the Unitronics House (for details see section 1.21 below). In addition, the Company holds 100% of the issued capital of Unitronics Industrie Automation GmbH, a company registered in Germany, as well as 30% of the issued capital of Unitronics S.A. (Proprietary) Limited, a company registered in South Africa. These companies were established in 1995 and 1997, respectively, primarily for marketing Company products in those countries. These companies have been inactive for a number of years (the German subsidiary since 1997 and the South African subsidiary since 2000) and since then have had no assets, employees or liabilities.

Below is a diagram of the Company's holding structure and its subsidiaries:



1.3 Sectors of Activity

The Company has two major sectors of activity, handled by two business departments: the Products Department and the Systems Department.

Products sector: Through the Products Department the Company engages in the design, development, manufacture, marketing, sale and support of its products, mainly certain series of PLCs of various models (nano, micro and small PLCs) that incorporate an operating panel (a keyboard and a display) as an integral part of the PLC, and connectivity (including Internet, intranet, and cellular phone communications), as well as external expansion units for the PLCs, software for the PLCs, for management of logistics systems and for management of production floors, and additional auxiliary items.

Systems sector: Through the Systems Department the Company engages in the design, construction and maintenance of computerized storage and/or logistics systems, mainly automated warehouses, distribution centers and parking systems, including construction of new systems and/or the upgrading and servicing of existing systems, and maintenance services for these systems, based on framework arrangements or on call. The services of the Systems Department are provided to customers in and outside Israel.

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

Below are details of investments in the Company's capital effected during the last three years and, to the best knowledge of the Company, details of all other material transactions effected with the Company's shares by an interested party in the Company:

1.4.1 In December 2003, the exercise price of convertible bonds allotted in January 2001 was modified, and in the framework of an agreement with the holders of these bonds, the bondholders converted a principal amount of approx. € 2,250,000 into Ordinary Shares, waiving interest or other payments with respect to the sum converted. In consequence of the aforesaid conversion, 1,902,748 Ordinary Shares were issued, representing approx. 17.5% of the Company's issued and paid up share capital following the conversion. The balance of the bond principal (in the sum of approx. € 750,000) remains payable/ convertible at revised terms, the essence of which is as follows: (a) Annual repayment at a rate of 6.63% (repayment at a rate of 115% of the principal sum, in addition to interest payments at a rate of 4% per annum up to February 2006, inclusive), and thereafter at a rate of 8.13% per annum (on the aforesaid amount); (b) Repayment in ten quarterly installments (principal + interest) starting May 2006; (c) The unpaid principal is convertible into Ordinary Shares at an exercise price of € 4.73 per share, reflecting a possible allotment of up to 158,562 Ordinary Shares (which even after allotment would not make such bondholders interested parties, based on the information available to the Company relating to their holdings in Company shares on the date of this report); (d) Listing the conversion shares for trading on the stock exchange in Belgium, which was already performed. The Company estimated that conversion of the bonds (even though at a substantially lower price) along with postponement of repayment of the remaining bonds not yet converted for 10 quarters (even though at a higher interest rate), was preferable to the cost involved in raising external capital and/or reducing Company expenditure on research, development and marketing for repayment of the original bond principal as detailed above. As of February 7, 2008, the Company paid 8 out of 10 payments of principal and interest on these bonds (for details see immediate report dated November 22, 2007 concerning a payment of bonds (Series 5/04)). As of the date of submission of this report, the balance of the bond principal stands at € 212,000, convertible, as per the terms above, into 44,786 Ordinary Shares.

1.4.2 On April 12, 2005, 1,000,000 (one million) Ordinary Shares of the Company, traded up to that date on the EuroNext Stock Exchange in Belgium, were listed on the Tel Aviv Stock Exchange, in addition to the Company's securities which were listed on the Tel Aviv Stock Exchange pursuant to the 2004 Prospectus. As of the date of this report, out of a total amount of 11,676,546 Company Ordinary Shares of NIS 0.02 par value each listed for trading, 1,800,000 Ordinary Shares are listed for trading on the Tel Aviv Stock Exchange and 9,876,546 Ordinary Shares are listed for trading on the EuroNext Stock Exchange in Belgium.

1.4.3 In view of the relatively low prices of the shares on the Tel Aviv and Belgium stock exchanges, and as a vote of confidence in the Company and its operations, commencing August 2005 the Company, from time to time, purchases its Ordinary Shares within the framework of trading on the stock exchange (these acquisitions were effected at prices of between NIS 3 and NIS 5.5 per share). On June 22, 2006 the Company's Board of Directors approved a further purchase of Ordinary Shares of the Company for a total sum of approx. NIS 2,000,000 on similar terms and at a price not exceeding NIS 6.50 per share. Up to December 31, 2007 the Company held a total of 612,969 Ordinary Shares purchased as stated (out of an existing 11,676,546 Ordinary Shares in the Company's issued share capital). These purchases were made for a total sum of approx. NIS 2.85 million and at prices of between NIS 3 and NIS 5.5 per share. As long as these shares are owned by the Company, they are "dormant shares" within the meaning of this term in the Companies Law, 5759-1999. Up to the date of this report no additional shares were purchased by the Company, and the Company holds a total of 612,969 shares purchased as stated.

1.4.4 On December 15, 2005 the general meeting of the Company's shareholders approved a private allotment of options for the purchase of a total of 10,000 Ordinary Shares of the Company of 0.02 par value each, to Mr. Ron Mishael, who was elected in that meeting to a further term as an external director of the Company. Since the above allotment was approved by the Company's Audit Committee which comprised only one external director (in the absence of Ron Mishael himself, whose first term had expired on the date of the above approval), the Company's Audit Committee and Board of Directors ratified the above share option allotment on March 27, 2006, and pursuant to approval by the general meeting of Company shareholders on May 9, 2006, the Company's Board of Directors allotted the share options to Mr. Ron Mishael according to the terms of Section 102 of the Israeli Income Tax Ordinance [New Version] and the Company's 2003 share option plan, with the remainder of the terms being similar in essence to the terms under which share options had been granted to other directors of the Company under the Company's 1999 share option plan (for further details regarding the terms of the options, see section 4.10.3a below).

1.4.5 On February 20, 2006, the Company's Audit Committee and Board of Directors approved a market making agreement of the Company with Harel Investment House Ltd. (hereinafter: "**Harel**"), pursuant to which Harel is to act as market maker for the Company's shares in accordance with the Tel-Aviv Stock Exchange Regulations and in accordance with the instructions and decisions of the Tel-Aviv Stock Exchange Directorate (for details see section 4.6 below).

1.4.6 The 2006 Prospectus offered to the public units comprising NIS 34 million par value of bonds (Series 2) and 600,000 option instruments (Series 2) convertible into Ordinary Shares. These shares and securities were allotted on August 25, 2006 and were listed for trading on the Tel Aviv Stock Exchange. The net proceeds from these securities, after deduction of issuance expenses, were approx. NIS 30 million.

1.4.7 On April 12, 2007 the Company's Board of Directors approved a private allotment of non-negotiable options to Mr. Jonathan Roman, a former employee of the Company who serves now as an external consultant and service provider to the Company. The private allotment is a "private offering which is neither material nor exceptional" within the meaning of these terms in Regulation 1 of the Israeli Securities Regulations (Private Offering of Securities in a Registered Company) , 5760-2000. On April 29, 2007 the Tel-Aviv Stock Exchange approved the listing of the shares underlying these options (for details see immediate report concerning a private offering which is neither material nor exceptional that was published on April 15, 2007, an immediate report that includes the Tel-Aviv Stock Exchange's letter concerning the approval that was published on April 29, 2007, and the amending report from June 19, 2007, which amended the options exercise periods that were published in the aforesaid report from April 15).

1.4.8 On May 7, 2007 the holdings of Mr. Haim Shani, Chairman of the Board of Directors and CEO of the Company and a controlling shareholder therein, increased due to the acquisition of Ordinary Shares of the Company within the framework of trading on the Tel Aviv Stock Exchange. Mr. Shani's holdings after the change (disregarding the first payment of bonds (Series 1) performed thereafter, as detailed below) were: 55.32% of the share capital and 58.92% of the voting rights (and on a fully diluted basis after the change: 35.06% of the share capital and 32.27% of the voting rights) (for details see immediate report concerning the status of holdings of interested parties, published on May 7, 2007). After performance of the first payment of bonds (Series 1), Mr. Shani's holdings were: 55.32% of the share capital and 58.92% of the voting rights (and on a fully diluted basis: 37.05% of the share capital and 39.39% of the voting rights (for details see immediate report concerning the status of holdings of interested parties published on May 24, 2007)). In the wake of further personal acquisitions of Company shares (see section 1.4.3 above), Mr. Shani's holdings rates changed such that as of November 22, 2007 and as of the date of publication of this periodical report, his holdings stands at: 55.49% of the share capital and 59.11% of the voting rights (and on a fully diluted basis: 38.71% of the share capital and 41.15% of the voting rights) (for details see immediate report concerning the status of holdings of interested parties published on November 23, 2007).

1.4.9 On May 24, 2007 the Company executed the first out of four payments of principal of the bonds (Series 1) pursuant to a the 2004 Prospectus (for details see immediate report from May 24, 2007 concerning a payment of bonds (Series 1)). On November 23, 2007 the Company paid interest on this bond.

1.5 Dividend Distribution

The Company has not distributed dividends since it was established. The Company has no plans to distribute dividends in the foreseeable future.

Part II - Other Information

1.6 Financial information on the Company's sectors of activity

1.6.1 Below is financial information on the Company's sectors of activity:

	For the year ended December 31		
	2007	**2006**	**2005**
	NIS in thousands as reported		
Revenues:			
Products	60,041	53,711	37,201
Systems	41,613	40,370	42,862
Other	699	700	711
Total Revenues (*)	102,353	94,781	80,774
Sector Costs			
Products	43,205	36,284	26,703
Systems	40,445	36,123	38,271
Other	641	643	638
Total	84,291	73,050	65,612
Sector Results			
Products	16,836	17,427	10,498
Systems	1,168	4,247	4,591
Other	58	57	73
Total	18,062	21,731	15,162
Non-attributed expenses	(8,242)	(14,719)	(11,990)
Operating Profit (*)	9,820	7,012	3,172

(*) Consistent with financial statements

	As of December 31	
	2007	**2006**
	NIS in thousands as reported	
Assets used by sector:		
Products	20,582	20,125
Systems	9,095	11,721
Other	151	269
Non-attributed	83,985	91,392
Total Assets (*)	113,253	123,502

(*) Consistent with financial statements

1.6.2 The Company has no inter-sector revenues, and therefore there are no adjustments of the above sums.

1.7 General environment and impact of external factors on Company activity

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

For an analysis of the general environment, as well as for general information on areas of activity presented in this report below, the Company relies, *inter alia*, on several market surveys, including a summary of a survey and forecast from July 2007 conducted by ARC Advisory Group and a previous report from September 2005, titled Programmable Logic Controllers Worldwide Outlook (Market Analysis and Forecast through 2011) (summary accessible to the public at http://www.arcweb.com) (hereinafter: the "**ARC Report**"); a survey and forecast from August 2004 conducted by IMS Research, titled PLC 2004 Worldwide (summary accessible to the public at http://www.imsreasearch.com), and publications from September and December 2004 by the same entity (hereinafter, jointly: the "**IMS Report**"); and a survey and forecast from July 2001 conducted by Frost & Sullivan (Frost & Sullivan World Programmable Logic Controllers #7450-10) (hereinafter: the **"Frost & Sullivan Report"**). Hereinafter, wherever this report relies on the above market surveys, this fact will be explicitly indicated.

The Company's activity includes, as explained above, the activities of the Products Department (design, manufacture, marketing and support of PLCs and related products) and the activities of the Systems Department (design, construction and maintenance of automated logistics systems, mainly automated warehouses and distribution centers and automated parking systems). The Company's management estimates that these two areas of activity are affected by the increasing need for application of automation stemming from the factors explained above, and by the state of the global and local economies and their general influence on various industries.

Additional trends in the global automation market are the economic growth and accelerated industrial development of certain geographic regions of the world, such as China and Eastern Europe, which show increased activity in establishing local production capabilities and enterprises and increasing introduction of automation into such enterprises.

Notwithstanding the aforesaid, the Company is unable to either estimate or quantify the impact of such developments on the results of its operations.

For a discussion of other external factors, including specific market risks (such as exposure to changes in currency rates, interest rates and the like) and their manner of management, see section 1.22 below. For a discussion of information concerning the general environment and external factors relevant to each sector of activity separately, see sections 1.9 and 1.10 below.

Part III - Description of Company business by sectors of activity

1.8 Overview - synergy between Company's sectors of activity

The Company engages, as stated above, in the Products sector, in the design, development, manufacture, marketing, sale and support of industrial automation products, mainly PLCs, and in the Systems sector, in design, construction and maintenance services within the framework of projects for the automation, computerization and integration of computerized production and/or logistics systems, mainly automated warehouses and distribution centers and automated parking systems.

Although the Company operates in the Products sector and in the Systems sector separately in terms of policy, decision making, budgets, resources and other inputs, there is a synergy between these sectors within the Company, as well as a continuous process of feedback and mutual contribution, primarily in respect of feedback concerning market needs and customers' preferences, technological trends, business opportunities, data on competition, and other areas. Furthermore, both sectors (Products and Systems) concurrently use many common amenities (as detailed in Part IV below). The Company's CEO, together with its management, implement the mutual contribution and feedback as aforesaid on an ongoing basis.

1.9 The Products Sector

1.9.1 Structure of the activity sector and changes thereto

The Company's main products are PLCs which integrate, within a single unit, the control components (hardware and software constituting the active part of the PLC, or its "brain") and the interface components (HMI - Human-Machine Interface) intended to allow the operator to control the PLC itself, and through it the instruments controlled and monitored by the PLC, with no prior knowledge of programming required. Integration of the control and interface components in a single unit is a feature, which to the best of the Company's knowledge, has only begun being established in the realm of industrial controllers in the 1990s. As far as the Company knows, up until then the PLC market comprised mostly of PLCs without an integral operation and control interface forming an in separable part of the PLC, as well as PLCs with a complex integral interface and limited computational and data processing capabilities.

1.9.2 Standards

The manufacture and/or marketing of products in the field of control and automation is subject to various standards in different parts of the world, some of them general to the field of electronics and some more specific to the field of control. In this context the relevant standards are mainly EN-50081-1 and EN-50082-2 (for electromagnetic compatibility), European safety standards (such as the CE standard), and American and Canadian safety standards (such as the UL/cUL 508 standard).

Commencing in 2005, new regulations came into effect in the European Union in connection with the issue of electronic waste, under two complementary directives: (a) the WEEE Directive - which came into effect on August 13, 2005 and deals with the handling of the waste of electric and electronic equipment; (b) the Restriction of Hazardous Substances (RoHS) Directive - which came into effect on July 1, 2006. This directive limits the use of six substances in electric and electronic equipment marketed in Europe after July 1, 2006, including lead (Pb), mercury (Hg), cadmium (Cd), etc. For details regarding compliance of Company products with these standards and Company assessments in this regard, see sections 1.9.22 and 1.9.23 below.

1.9.3 Changes in scope of sector operations and profitability

According to the ARC Report (see above), the global PLC market was estimated at more than $ 8 billion in 2006, and is expected to grow to approx. $ 12 billion by 2011. The IMS Report (see above) estimates the global PLC market at approx. $ 6 billion in 2003, and anticipates a growth to approx. $ 9 billion by 2011. The earlier Frost & Sullivan Report estimated the market at approx. $ 6.7 billion already in 2001, and anticipated a growth to even as much as $ 9 billion in 2007 (this report preceded the global economic crises in the years 2001 to 2003). These sources estimate the present and projected average annual growth rate of the global PLC market between 2004 and 2009 to be approx. 4.5% to 5.9%, taking account of several trends as follows:

(a) PLCs of various sizes: The number and type of external devices that can be connected to and controlled by a PLC define its dimensions as a nano PLC, micro PLC, small PLC, medium PLC or large PLC. As stated in section 1.9.8 below, the Company focuses in the Products sector on nano, micro and small PLCs, that have, based on the sources quoted above, the highest relative rates of growth.

(b) Areas of Application: Concurrently with the increasing need for automation as explained above, the global and local economy affect the market, as reflected, *inter alia*, in the different rates of development of the market anticipated in the coming years in different industrial sectors. Thus, for example, the ARC Report estimates that the motor vehicle industry, which accounts for approx. 17% of the global industrial PLC market, will grow between 2004 and 2009 by approx. 5.9% per year, and that the food and beverages industry, which accounts for 12% of this market, will grow between these years by approx. 6.7% per year. Machinery manufacturers, which account for approx. 11% of the global industrial PLC market, are expected to grow between 2004 and 2009 by approx. 6.4% per year. The highest rate of growth according to the ARC Report is in the building control industry, which accounts for approx. 3% of the PLC market and is expected to grow between 2004 and 2009 by approx. 8.9% per year.

(c) Geographical sectors: Examination of the geographical distribution of sales of PLCs around the world in recent years (according to the ARC Report) shows that, in general, about 44% of sales take place in Europe, the Middle East and Africa, about 20% in North America, about 18% in Japan, about 15% in Asia (mainly China and India), and about 3% in South America. Concurrently, economic growth and industrial development in certain regions of the world, such as China and Eastern Europe, in the field of establishing production capacity and local enterprises, and the increasing introduction of automation into such enterprises, give rise to expectations of higher growth rates in these regions.

As stated above, the PLC market is subject to ongoing growth, and the various market surveys presented above indicate expectations of further growth in this market and its expansion into additional areas, involving lively competition which is likewise expected to grow in volume and also expand into various fields. The Company estimates that a trend of transition can be characterized towards utilization of decentralized systems based on smaller PLCs. In the Company's opinion this trend arises, *inter alia*, from ongoing pressure on prices of PLCs. The above may, in the Company's estimation, cause a decline in profitability for companies engaged in this field (including Unitronics[1], although the Company is unable to quantify this decline in profitability), resulting from a decline in market prices of PLCs. The ARC Report estimates a decline of approx. 4.2% in prices in the PLC market until 2009 (factoring in, *inter alia,* an increase of approx. 0.5% in prices of nano PLCs, a decrease of approx. 0.2% in prices of micro PLCs, a decrease of 1.7% in prices of small PLCs, as well as other factors).

1.9.4 Technological changes which could have a material impact on the sector

The PLC market is characterized by frequent technological developments, introduction of new products and technologies, and changes in market needs and requirements. The developments and innovations in the fields of electronics, communications and computers also influence the control and automation industries, including a trend towards miniaturization of PLCs (smaller units that compete in terms of functionality and price with large units from previous generations), expanded use of communications (between PLCs, and between PLCs and the command computers and organizational systems, using available and widespread communications technologies such as Ethernet, Internet and cellular communications), and development of convenient, user-friendly interfaces including using color screens in equipment and machinery. The Company designs its products in accordance with these trends, including miniaturization (down to palm-sized products), integration of convenient and user-friendly interfaces (such as color and touch screens) in the body of the PLC, and built-in communications capabilities as described in sections 1.9.8.1 and 1.9.10 below.

1.9.5 Critical success factors in the sector and changes therein

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

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

1.9.6 Principal barriers to entry and exit of the sector and changes therein

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

1.9.7 Competitive landscape in sector and changes therein

To the best knowledge of the Company and based chiefly on the Frost & Sullivan Report, which lists about 70 companies defined as “key competitors”, it is possible to define three categories of key competitors in the global market of industrial PLCs:

(a) Market leaders, usually multinational companies active globally in multiple fields, including PLCs. This group includes, *inter alia*, companies such as Mitsubishi Electric Automation Inc., Rockwell Automation / Allen Bradley Company Inc., Siemens AG, Omron Corp., Schneider Electric and GE Fanuc.

(b) Large multinational companies primarily engaged in PLCs. This group includes, *inter alia*, companies such as Yokogawa Corp., Koyo, Bosch Rexroth AG, Toshiba International Corp., Philips Components and Festo Group.

(c) Smaller companies operating in limited geographical areas or dealing in special niche products. This group includes, *inter alia*, companies such as Honeywell Safety Management Systems, Kim Controls, Horner Electric APG, B&R Industrial Automation and Pilz. The Company estimates that its activity in the Products sector belongs to this category. The Company is not aware of other Israeli companies in this category.

The Company is unaware of any statistical data to rely on in regard to consumption and/or sales of PLCs in Israel, and accordingly it is unable to estimate the size of the local market, its share of the local market or its share relative to other PLC manufacturers/ importers in Israel. As to its share of the global market, the Company estimates, based on accepted international market surveys in this field, including the ARC and Frost & Sullivan Reports, that its share of the global PLC market stands at less than one percent.

1.9.8 Products and services

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

1.9.8.1 PLCs and expansion units

The Company designs, develops, manufactures, markets, sells and supports several series of PLCs. These PLCs are based on a central processing unit (CPU) for computer-embedded industrial systems that coordinates the range of command, control, and communications operations executed by the PLC. The Company’s PLCs also incorporate an integral human-machine interface (HMI) component designed to enable the operator to control the PLC itself, and through it the instruments controlled and monitored by the PLC. This interface may differ from one product series to another in its nature and complexity, and it includes a data display (alphanumeric and/or graphic), a programmable keyboard and/or a regular keyboard and/or a touch screen. The PLC communicates with external components (such as the production devices themselves, engines or sensors) by means of built-in physical connections ("sockets" of sorts, similar to phone or computer sockets) intended for data input and output. The input/output capabilities of a PLC (number and type of connectable devices) define its dimensions as a nano PLC, micro PLC, small PLC, medium PLC or large PLC. The PLC's I/O capabilities may be expanded using external expansion units, thereby upgrading its functioning (as described below). The Company's PLCs have been designed for compatibility with the different protocols of line and wireless communications, including by means of the Internet (remote control and access, from inside and outside the organization, by means of a computer, with no physical connection), intranet (PLC-PLC communications and/or PLC-computer communications within the organization), and by means of a cellular phone (access to information and/or to means of control without a physical connection and without a computer, using cellular phone infrastructures, e.g. by means of SMS messages or by transmitting files over various telecommunications networks, such as GSM, CDMA, GPRS, CDPD and others). The communications capability of the PLCs is intended to enable command, control and monitoring of systems and processes, not only from the site in which the PLC is installed (production floor, logistics warehouse, etc.), but also from other stations, including the management offices or even from outside the organization's premises, thereby providing access to data and/or means of control for different levels in the organization, from production machine operators within the organization, through the organization's planning and control levels (including raw material inventory planning, finished goods etc.) and all the way to senior management or even people outside the organization. Below are certain major attributes, which distinguish among PLCs in the above categories:

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

The main series of PLCs and expansion units manufactured by the Company include:

(a) Alphanumeric PLCs, nano/micro PLCs of M90/M91 series: A series of palm-sized products, with an interface containing 15 programmable keys and a mini LCD screen for displaying alphanumeric characters, and up to 38 integral input/output points, expandable up to an additional 96 input/output points via an external expansion unit (see sub-section (f) below).

(b) Graphic PLCs: nano/micro PLCs and small PLCs of the Vision™ series: A series of products with a graphic display and advanced communications capabilities, marketed at relatively low prices compared to similar products. This series includes the Vision230™, the Vision260™, the Vision120™ and the Vision 130™ PLCs in a palm-size package, with an illuminated mini LCD screen allowing graphic display, a keyboard with up to 33 programmable and customizable keys and expandable input/output points.

(c) Graphic PLCs with a touch screen: PLCs of the Vision280™ and Vision290™ series: A series of products with a larger, illuminated LCD screen permitting graphic display and operation using the screen (a touch screen). The operator's interface is especially user-friendly (and also contains, in the Vision280™ model, a 27-key programmable and customizable keyboard), with integral input/output points expandable up to 153 points using an external expansion unit (see sub-section (f) below). The enhanced computation and data processing power of the PLCs of this series, together with their advanced display capabilities and their user-friendly characteristics, are designed to enable their use mainly for large and complex systems.

(d) Graphic PLCs with a color touch screen: PLCs of the Vision290™-Color, Vision570™ and Vision350™ series: A series of products with a larger, illuminated color LCD screen permitting graphic display and operation using the screen (a touch screen). The operator's interface is especially user-friendly, with integral input-output points expandable up to 153 points using an external expansion unit (see sub-section (f) below). The color display feature integral to this PLC is in line with market trends, which demand friendlier user interfaces and application of color displays in many machines and devices.

(e) Graphic PLCs: nano-PLCs of the Jazz™ series: a series of PLCs smaller than current products and at lower cost than current products. This series includes palm-sized products, with an interface containing programmable keys and a mini LCD screen as well as a small number of integral input/output points, which are not expandable. **(Eyal: this is not new anymore. I also deleted from the Hebrew)**The objective of this series is, *inter alia*, to provide a substitute for “smart relays” using a complete PLC at low cost, thereby expanding the Company’s range of products and allowing its customers to purchase additional products from the Company, which they currently purchase from its competitors. An expanded product line is also intended to support the expansion of the Company’s client base by allowing accessibility to potential new clients.

(f) External expansion units: The Company develops and markets external In/Out expansion units designed to increase the I/O capabilities of the PLCs beyond their integral capabilities (by increasing the number of integral sockets) and thus to expand the array of tasks, processes, and devices managed, controlled and reported by them. The Company's external expansion units enable adding up to 128 I/O points to the integral points in the PLC. For example, the number of I/O points in nano PLCs can be increased by 96 points in addition to those built-in, and in micro PLCs by 128 points (a total of 153 points in these series), and thus to upgrade their functional capabilities on a par with those of small and medium PLCs, respectively. These expansion units are designed to increase the flexibility and compatibility of the various PLCs according to the varied and specific needs of each user, and also to aid in reducing the costs involved in the purchase, installation and maintenance of larger and more expensive PLCs and/or of larger numbers of PLCs.

(g) Accessories: The Company provides complementary accessories for the above PLC series and expansion units, including such components as cables, adapters, programming kits, user guides as well as products not manufactured by the Company, such as cellular modem units, power suppliers and protocol converters. These accessories are intended to provide a comprehensive solution for the customer from a single source, thereby improving the flexibility and fit of the various PLCs to each user’s varied and specific needs, and to reduce the costs involved in purchasing the ensemble of components required for the application.

The Company’s products are focused on a range of up to 150 I/O points per individual PLC. In the future the Company may expand its activities into the realm of larger PLCs, allowing operation of a higher number of I/O points (see section 1.9.10.2 of this report).

1.9.8.2 Software programs

(a) PLC software programs: The Company develops and markets, as a package together with its PLCs, software operating programs for PLCs, which may be used to program the operating interfaces of the PLC itself and its operation, as well as the command and control operations of the PLC with respect to the instruments to which it is connected. The Company’s U90™ software serves PLCs of the M90/M91 and Jazz™ series, while the Company’s VisiLogic™ software serves PLCs of the Vision™ series. These software programs operate in the Microsoft Windows environment and are designed to also permit those without professional programming skills to program, in an intuitive and accessible manner, both the operating interface of the PLC itself, at the operator's convenience, and the PLC tasks with respect to the system components in the machine or equipment that the PLC is intended to control. These software programs enable access to programming tools, including self-design or import of graphic icons, text messages, menus in various forms, and adaptation of the display to the varying conditions of the process being controlled (e.g. changing displays according to progression of manufacturing process along an industrial production line.)

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

(b) Software for management of logistics systems and production floors: The Company develops and markets, as a package together with the logistics systems which it constructs, and also as stand-alone products, software for management of warehouses, marketed under the name UniStock™, intended to enable command, control and management of automatic and/or manual storage systems (software known in the industry as WMS - Warehouse Management System), including management of inventories, orders, issues and distribution, as well as operation and synchronization of the movements of automatic conveying systems and handling of mini-terminals (software known in the industry as MFC - Material Flow Control). The Company develops and markets, as a package together with the automated parking systems constructed by it, a software program for management of automated parking systems, intended to enable automatic command, control and management of automated parking facilities, including management of admission, parking and delivery of vehicles, as well as operation and synchronization of the movements of automatic conveying systems. The Company also has software for management of production floors, marketed under the name UniTrack™, intended to enable command, control and management of production apparatus, including data collection from the production apparatus, processing of the data, and coordination of production resources.
These software programs operate in the Microsoft Windows environment, under client-server architecture, and are designed to support multiple languages (including Hebrew) and to communicate with enterprise ERP or management or billing systems. These software programs can be installed and implemented as is, like any other application program, without the need for software modifications to accommodate unique needs, but it is also possible to customize them to the specific and unique needs of each user.

1.9.8.3 Trends and changes - Products

The Company's products are focused mainly in the segment of micro and nano PLCs. This segment is characterized in the market surveys described above as the market segment with the most rapid growth rate. At the same time, this market segment is highly competitive and prices of products therein are continuously declining (see also section 1.9.14 below).

The Company invests in the development of new products designed to meet the changing needs of customers in the PLC market. These products replace the Company's older products and are designed to continue doing so.

1.9.8.4 Services

Services of the Products Department comprise primarily technical support for Company products, and are delivered by a technical support team offering pre-sale support services for purchasing Company products (mainly consulting for customization of products to each customer's specific needs), post-sale training and technical support for assimilating the products and/or troubleshooting. Applications to the support team usually originate from the Company's distributors (see section 1.9.12.2 below), from direct end users and from indirect end users (who purchased the Company's products from distributors in Israel or abroad). These applications are processed by support staff, with involvement of lab, development and marketing staff of the Company as required.

The Company typically provides a 12-48 month warranty for its products. The Company also provides technical support services for its distributors prior to actual sales (pre-sale services), at the Company's discretion on a case-by-case basis. The Company does not make provisions for warranty due to insignificance (absence of applications and/or applications for insignificant sums).

1.9.9 Revenue segmentation and profitability of products and services

The Company's revenues from its activity in the Products sector amount to approx. 46%, 57% and 59% of its total revenues in 2005, 2006 and 2007, respectively. The various series of the Company's major products contribute to its profitability with no material differences among them. The changes in profit rates of the Company's Products Department operations between 2005-2007 are primarily due to different (though not significantly different) profit margins of several transactions, combined with an increase in labor costs during this period, required for manufacturing in order to support continued growth. The Company estimates that as of beginning of 2008 gross profit rates may decrease as a result of the implementation of Accounting Standard No. 30, as explained below.

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

	For the year ended December 31		
	2007	**2006**	**2005**
	In NIS thousand (*) (and percentage of total revenues/gross profit, approximated)		
Products (**) (***)	(59%) 60,041	(57%) 53,711	(46%) 37,201
Gross profit (amount and rate)	(45%) 26,931	(49%) 26,291	(50%) 18,700

(*) The financial data for the years 2005, 2006 and 2007 are in NIS thousands as reported.

(**) In addition to complete products (PLCs and expansion units), the Company sometimes sells products together with certain components of PLCs and sometimes only parts and components (electronic cards, panels, individual components). In cases in which a product is sold together with additional components, their sale is included in the sale of the product. There are no significant differences in the method of sale, the demand, the production processes and/or the customer profiles, between the various series of the Company's products and/or in sales of whole products compared to components.

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

1.9.10 New products

The Company, through its R&D teams, engages in the development of new technologies and products and in the upgrading and improvement of existing ones. There is no certainty that development of these technologies and/or products will be completed, or if completed, that a market for them will exist[2] .Below is a brief description of major technologies and products in different stages of development by the Company.

1.9.10.1 WilCo™ (internal name) - command and control via decentralized PLCs: The Company is continuing R&D activity with respect to a series of products designed to enable command and control by means of a network of decentralized PLCs linked together physically and/or by wireless communications, intended to allow flexible and modular configurations of industrial command and control facilities. The major elements of the system include wireless communications capabilities, a centralized/ decentralized command system and an Internet access platform.

The Company is progressing in the stages of development of the WilCo™ technology, and has completed several milestones that include, *inter alia*, various design activities and the development of subsystems of components of the technology (which have yet to complete the technologically feasibility stage). Nevertheless, due to the relatively low participation rate of the Chief Scientist at the Ministry of Industry, Trade and Labor in funding this development (see section 1.9.18 in this report), the Company has decided to shift the focus of its development efforts to other products (see section 1.9.10.2 in this report) while continuing development of the WilCo™ technology at a slower pace[3]. Certain of the produce of the development of

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2 The information concerning development of these products and market recognition for them is forward-looking information. The principal data which served as a basis for this information are the stages in the development of the technology as of the date of this report, which do not yet allow to identify significant technical feasibility at competitive market prices, the need for continued substantial investments in R&D expenditures, for which there is no assurance that they will be available to the Company at all or to the required extent, as well as the need to educate markets and consumers for use of decentralized control systems and/or the technologies under development. The principal factors which may prevent this information from materializing are: completion of development stages to indicate a high probability of technological feasibility at competitive market prices, and development of markets and a consumer culture appropriate for decentralized controllers and/or the technologies under development by the Company.

3 The information concerning completion of development of components of the WilCo™ technology is forward-looking information. The principal data which served as a basis for this information are: analysis of actual progress made in development stages; analysis of the Company's ability to market these components of the technology; and the potential for its market acceptance. The principal factors which may prevent this information from materializing are: the extent of the investments required for such activity, which may significantly exceed the Company's budgets for such items; restrictions on the Company's ability to commercialize these technologies

the WilCo™ technology are already being sold as modules intended for integration in existing Company products, in order to expand certain capabilities of the existing products, such as an Ethernet network connectivity expansion card for PLCs of the Vision™ series. The Company registered a US patent in connection with certain aspects of the WilCo™ technology. The Company filed the patent application for this patent in accordance with the international patent cooperation treaty (PCT) (see section 1.13 in this report). The Chief Scientist at the Ministry of Industry, Trade and Labor participated in funding part of the development program associated with this technology (see below).

1.9.10.2 Other products: The Company is concurrently engaged in the development of upgrades and improvements of PLCs and expansion units of its existing series of products, while striving to implement conclusions drawn from an analysis of trends and feedback from distributors and customers around the world.

Among other things, the Company is developing, and plans to continue developing, additional series of PLCs and/or new control products that will allow the Company to offer its customers PLCs in dimensions outside the existing range of Company products[4]. These products are planned to include, as stated, smaller products than the existing ones, as well as additional products that will enable the expansion of the Company's product line to include also larger products offering command and control solutions for larger and more complex systems than those for which the Company's existing products are intended. The purpose of this process is, *inter alia*, to expand the basket of Company products and permit its customers to purchase from it additional products that they are currently purchasing from the Company's competitors. The broader product line is also intended to expand the Company's customer base by providing access to new potential customers. Development of these products has yet to pass the technological feasibility stage.

1.9.10.3 "Shelving" Company products: The Company is working to increase the level of "shelving" (turning a product into an off-the-shelf product) of the Company's management and control software programs used in the field of logistics systems (such as the UniStock™ package and the automated parking management systems), so as to significantly reduce the reliance on software adjustments specific to users' needs[5].

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at competitive market prices; as well as absence of developed markets and a consumer taste suitable for using the technologies being developed – in addition to the general risks outlined in section 1.22 of this report.

4 The information concerning development of products in dimensions outside the existing range of Company products is forward-looking information. The principal data which served as a basis for this information are the Company's development programs which are based, *inter alia,* on analysis of market surveys as detailed in sections 1.7 and 1.9.3 above, analysis of market needs and consumers' preferences as reflected in the Company's direct contacts with the markets, technological feasibility, the Company's estimations as to anticipated R&D costs of funding such developments as well as the strong competition in this field as detailed in this report. The principal factors which may prevent this information from materializing are the extent of the investments required for such activity, which may significantly exceed the Company's budgets for such items; restrictions on the Company's ability to commercialize these technologies at competitive market prices or at all; as well as absence of developed markets and a consumer tase suitable for using the technologies being developed – in addition to the general risks outlined in section 1.22 of this report.

5 The information concerning planned changes in management and control software programs and the ability to reduce the need for specific software customization to user needs is forward-looking information. The principal

1.9.11 Customers

1.9.11.1 The direct customers of the Products Department are mainly distributors connected to the Company by distribution agreements (see below). The end customers are generally manufacturers of PLC-controlled industrial machines intended for the automation of defined tasks such as packaging, for specific operations on production lines, etc. The machine manufacturer purchases PLCs suitable for the machine he is producing, installs the Company's PLCs in the machine, and markets it to his customers, who will integrate it in the production line or in other automatic applications that will be controlled and managed using the Company's PLCs. The end users of the Company's products are manufacturers of machines for a broad range of applications in various industries, including the plastics, textile, vehicle spare parts, food and petrochemical industries, etc. Other examples are the use of Company products for command and control of the use of energy, air conditioning, control systems in buildings, conveyors, security systems, etc. In general, the Company has no direct contact with end customers, who are in direct contact with the various distributors including for customization, installation, warranty, etc.

1.9.11.2 Major Customers: For details see section 1.9.12.3 in this report.

1.9.11.3 The Company regularly examines the credit that it has provided to customers and the potential losses that could arise from the provision of credit to customers. The Company makes specific provisions for debts where collection is in doubt.

1.9.12 Marketing and distribution

The Company's products and services are marketed and sold through the Company's internal marketing infrastructure, a network consisting of some one hundred and forty distributors (of which approx. 80 in the United States) in about fifty countries (including Israel) across Europe, Asia, South and Central America, North America and Africa, and a wholly owned subsidiary incorporated in the United States. The Company estimates that the marketing and distribution operations (as detailed below) are expected to grow over the coming quarters[6].

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data which served as a basis for this information are: analysis of market surveys as detailed in sections 1.7 and 1.9.3 in this report, analysis of market needs and consumers' preferences as reflected through the Company's direct contacts with the markets, technological feasibility, R&D costs of funding such changes as well as the strong competition in this field as detailed in this report. The principal factors which may prevent this information from materializing are: the extent of the investments required for such activity, which may significantly exceed the Company's budgets for such items; restrictions on the Company's ability to upgrade such software programs as required for marketing them as off-the-shelf products and the superior financial and technological means available to a major part of the Company's competitors – in addition to the general risks outlined in section 1.22 of this report.

6 The information concerning the expected growth in marketing and distribution operations is forward-looking information. The principal data which served as the basis for this information are: the Company's marketing activities, including planned attendance at exhibitions and training sessions for distributors, as well as the need for continued material investments in marketing expenses. The principal factors which may prevent this information from materializing are: changes in the Company's marketing plans arising from 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).

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

1.9.12.2 Distributors: The Company’s products are marketed through distributors in Israel; Europe (Austria, Ukraine, England (including Scotland and Wales), Bulgaria, Belgium, Belarus, Czech Republic, Cyprus, Croatia, Kazakhstan, Azerbaijan, Uzbekistan, Denmark (including the Faro Islands and Greenland), Estonia, Finland, France, Germany, Greece, Holland, Hungary, Italy, Latvia, Lithuania, Luxembourg, Norway, Poland, Portugal, Russia, Slovenia, Spain, Sweden, Switzerland, Turkey, Serbia, Macedonia, Bosnia-Herzegovina and Ireland); Asia and the Pacific (Australia, China, India, Vietnam, Japan, New Zealand, Taiwan, Thailand, Singapore, Hong Kong and South Korea); Africa (South Africa and Nigeria); South and Central America (Argentina, Brazil, Chile, Colombia, Mexico, Venezuela and Peru), and North America (United States and Canada).

The Company’s agreements with its distributors generally confer exclusive distribution rights in defined territories (subject to the Company’s right to sell by itself and/or through subsidiaries and/or pursuant to comprehensive agreements for installing systems), for limited periods (usually one year) renewable subject to performance of specified minimum sales or subject to the Company’s discretion in the event that the distributor fails to perform the agreed specified minimum sales. The distributors purchase Company products based on an annual purchase forecast provided by them in advance, usually according to the Company’s price list, and sell them at their own discretionary prices. The Company generally grants its distributors 30 to 90 days’ credit, and requires securities such as a bank guarantee or letters of credit (with the exception of the United States). The distributor is generally required to provide end users with a 24-month warranty, backed by the Company’s commitment to the distributor for the same period of time. These agreements may generally be terminated at any time by a 30 to 90 day notice of either party, and they are generally governed by Israeli Law and subject to the jurisdiction of the courts in Tel Aviv and/or to an arbitration mechanism for settlement of disputes.

1.9.12.3 Material distributor: The Company's revenues from one of the distributors of its products constituted approx. 4.7%, 5% and 5% of its total revenues in 2007, 2006 and 2005, respectively. On March 1, 2007, a new distribution agreement was signed with this distributor according to which it serves as exclusive distributor of the main series of the Company's PLCs in a defined territory, for a five-year term, which is automatically extended by four additional terms of five years, subject to meeting certain minimum orders. According to the agreement the distributor is obligated to keep minimum quantities of stock, to provide a bank guarantee or a letter of credit to secure payment of its orders, to refrain from selling competing products during the term of the agreement (and in certain cases also for a limited period after termination thereof) and to confidentiality during and after the agreement term. The distributor is further obligated to provide service during 24 months to customers who purchase the Company's products from it, against the Company's corresponding commitment towards the distributor. The agreement is mutually terminable in the event of breach and dissolution, and otherwise, by a prior 15-month notice.

The Company's revenues from another distributor of its products constituted approx. 5.6%, 4.9% and 2.3% of its total revenues in 2007, 2006 and 2005, respectively. A distribution agreement was signed with this distributor in March 2004, according to which it serves as exclusive distributor of the main series of the Company's PLCs in a defined territory including a number of countries, until the end of that year and thereafter for a one-year term which is automatically extended at the end of each year by four additional terms of one year, subject to meeting certain minimum orders. According to the agreement the distributor is obligated to keep minimum quantities of stock, to refrain from production, distribution and/or promotion of competing products during the term of the agreement and to confidentiality during and after the agreement term. The distributor is further obligated to provide service during 24 months to customers who purchase the Company's products from it, against the Company's corresponding commitment towards the distributor. The agreement is mutually terminable in the event of breach and dissolution, and otherwise, by a prior 6-month notice.

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

1.9.13 Order backlog

As of December 31, 2007 the Company had an order backlog of approx. NIS 3.9 million for the Products Department, and as of March 1, 2008 the Company had an order backlog of approx. NIS 3.85 million for the Products Department, as detailed below.

In general, the order backlog of the Products Department conforms to the Company's policy, which is adjusted to the nature of the activity in this market, which is based primarily on purchases from stock and off-the-shelf from distributors.

	Product order backlog as of December 31, 2007 NIS in thousands	**Product order backlog as of March 1, 2008 (closest possible date to date of this report) NIS in thousands**
For Q1 2008	1,990	816
For Q2 2008	524	929
For Q3 2008	431	850
For Q4 2008	498	646
For 2009 and thereafter	424	611
Total	3,867	3,852

Differences in the reported order backlog for different periods arise from changes in delivery schedules of ordered products on the one hand, and from receipt of new orders on the other hand, all within the ordinary course of the Company's business.

1.9.14 Competition

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

As mentioned in section 1.9.7 in this report, the majority of the Company's competitors are larger and more established companies, with financial and other means which significantly surpass those of the Company, including R&D, marketing and sales resources, as well as a recognized name in the market. These competitors are able to react before the Company to changing market needs, and also to offer customers more flexible and convenient financing terms than those offered by the Company, thereby limiting the Company's ability to compete effectively. There is no certainty that the Company will successfully compete in this market, and its competitors may succeed in capturing some of its market share.

1.9.15 Seasonality

The Company does not identify in the Products sector any significant seasonal pattern. Its products are consumed throughout the year without any fixed seasonal patterns.

1.9.16 Production capacity

Since 2001 the Company has expanded its utilization of subcontractors for its production activities and has reduced its in-house production activities, with the aim of reducing costs and improving timetables. The Company diverts to subcontractors mainly the manufacture of the plastic components in its products (such as the casings of the PLCs and the expansion units) and the automatic placement of about 98% of the components of the electrical circuits (PCBs). The Company itself assembles, using its staff and its facilities in Airport City, about 2% of the components of the electrical circuits, and generally performs by itself the final assembly of the product, its electrical testing, calibration and packaging. The use of subcontractors to carry out most of the production stages is also intended to improve the possibilities of growth and flexibility in view of the high production capacity using existing subcontractors and the ability to add subcontractors as needed (subject to the learning and assimilation curve described below). As for production operations within the Company, as of the date of this report most of the production capacity is utilized, but the Company is able to increase its production capacity for these activities as needed, because of the possibility of assigning to these tasks unskilled manpower that is therefore relatively available and that requires only a short training period. The average production time for most of the Company's products is about three months, with the actual lead time for Company products being usually shorter, depending on the order volume and the finished goods inventory available to the Company as of the date of every such order.

The Company generally has no written agreements with subcontractors for production, it is not bound by any framework arrangements with them and it hires their services as needed on an *ad hoc* basis. The business terms usually applicable between the Company and its production subcontractors consist of open credit without guarantees, payment on the basis of current month + 75 days, predefined delivery time (one to two weeks), and prices subject to volume discounts. The Company's payments to the primary production subcontractor in 2007, 2006 and 2005 constituted 5.7%, 2.9% and 3.8% respectively of total Company expenses for raw materials and subcontractors in those years. Payments to other subcontractors in those years were on an insignificant scope per contractor. The Company is not dependent on specific production subcontractors and therefore can retain numerous and diverse contractors to that end. However, the replacement of an existing subcontractor with a new one might involve delays arising from a learning and assimilation curve with respect to the Company's needs and/or use of special production components adjusted to the Company's needs (e.g. molds for casting the plastic casings of the PLCs). In the Company's estimation, replacing a subcontractor as mentioned above is not expected to cause material extra costs.

1.9.17 Fixed assets and facilities

The Company has no fixed assets or facilities specific to the sector, and it uses its fixed assets and facilities for its business in both sectors (for details, see section 1.12 below).

1.9.18 Development Expenses

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

	For the year ended December 31		
	2007	**2006**	**2005**
	NIS in thousands as reported		
Payroll and benefits	6,395	5,726	3,837
Subcontractors	447	464	286
Other expenses	2,345	2,331	1,670
Less Chief Scientist participation	-	-	(40)
Less capitalized expenses	(7,625)	-	-
Total	1,562	8,521	5,753

During 1992 through December 31, 2007 the Chief Scientist at the Ministry of Industry, Trade and Labor (hereinafter: the **"Chief Scientist"**) participated in the funding of the Company's R&D plans under the Encouragement of Industrial Research and Development Law. 5744-1984 (hereinafter: the "**R&D Law**"). Below are details of the plans approved by the Chief Scientist's office and which are in progress and/or still bind the Company:

Subject of program	**Date of approval**	**Approved R&D expenses**	**Grant rate**	**Grant amount**	**Implementation period according to letter of approval**
Four programs for previous generation PLCs whose sales constituted an immaterial percentage (under 1%) of the Company's revenues in 2004 and later	1997 - 1992	NIS 4,695,535	30-50%	NIS 1,888,221	1997 - 1992
Wilco™ PLC	1/7/03	NIS 1,644,268	40%	NIS 657,707	30/4/04 - 1/5/03

The Company is required to pay royalties to the Chief Scientist at a rate of 2% to 5% of sales of products developed with the Chief Scientist's assistance, up to repayment of the total grants (and in respect of grants received starting from January 1999 - plus interest at LIBOR rate). As stipulated in the letter of approval with respect to the Chief Scientist's participation in funding part of the Company's development program in connection with the WilCo™ series of products, the Company is required to pay royalties not only in conjunction with sales of products of the WilCo™ series, but also in conjunction with sales of: (1) any Company PLC including an internal short-range radio modem as an integral part of the PLC and which uses Mesh topology, as well as (2) any Company PLC with TCP/IP-based Ethernet communications as an integral part of the PLC, for the creation of a dedicated communications channel using a central server as an intermediary for locating and mapping PLCs over the Internet (for further information regarding development of WilCo™ products, see section 1.9.10.1 in this report).

The letters of approval are conditioned upon compliance with the provisions of the R&D Law and the regulations and rules pursuant thereto, and on performance of the R&D plans as described in the applications and within the performance period, while reporting and obtaining approvals with respect to changes in holdings and controlling means in the Company, as well as transfer of controlling means in the Company to a foreign resident or a foreign company. In this framework the Company is subject to further restrictions, such as refraining from overseas production of products based on technology developed with the assistance of the Chief Scientist, and from the transfer of such technology overseas or to third parties, except with the approval of the Chief Scientist. The Company is also prohibited from transferring knowledge developed with Chief Scientist financing participation, to any third party, without the Chief Scientist's consent as mentioned. Up to December 31, 2007 grants to the Company under these programs were approved in a total sum of NIS 2,473,000. From 1992 to 2005 and up to December 31, 2007 the Company paid royalties to the Chief Scientist in a total sum of NIS 160,000 (of which approx. NIS 25,000 from 2001 to 2005). As of December 31, 2007 the total liabilities to the Chief Scientist attributable to programs that the Company's management believes may generate royalties, amounts to approx. NIS610 thousand. As of the date of this report, the Company has met its obligations to the Chief Scientist.

1.9.19 Human Capital

Activity of Company staff is by departments, with staff employed and involved in both of the Company's sectors, while the staff of each department focuses primarily on issues of their own sector (for details see section 1.14 below).

1.9.20 Raw materials and suppliers

1.9.20.1 Company products may incorporate about 80-250 mechanical and electronic components, including electronic circuits and their components, keyboards, alphanumeric and/or graphic display screens, and others. About 88% of the components in most of the products are standard (off-the-shelf) products, manufactured inside or outside Israel and can be purchased from various suppliers that can be replaced without any changes to the product. The Company is not dependent on a single source for the supply of these raw materials. About 6-7% of the components in most of the Company's products are custom made for it in accordance with a specification and/or plan, mainly plastic casings, keyboards, printed circuit boards (PCBs), various connectors, metal parts and touch layers in the touch screen. Although these components are of major importance in Company products, they may be ordered from several suppliers/ manufacturers inside and outside Israel, in most cases without need of any product adjustments, and there is consequently no dependence on a single supplier/ manufacturer. However, in some cases (about 4% of off-the-shelf components in most Company products), although they may be purchased from several suppliers, their replacement by new suppliers is liable to cause delays (of up to three weeks) resulting from the alternative supplier's learning and assimilation curve with respect to the Company's needs.

Regarding a small number of items that represent about 1-2% of the components in most of the products (representing immaterial amounts in purchases in the years 2005, 2006 and 2007), although these are off-the-shelf components that could be purchased from suppliers inside or outside Israel, there is a dependence on a single manufacturer for the supply thereof (the manufacturer of one item is Infineon Technologies AG, a member of the Siemens AG group, and of another item - WizNet of the Samsung group). Although such components may be installed in Company PLCs even if made by other manufacturers, this might involve structural and functional changes and various modifications of the hardware and software that are liable to cause delays and customizing costs. In order to reduce this dependence the Company enters into annual orders, and in a few cases minimum stock maintenance agreements, with several different suppliers, in order to ensure availability and continuous supply of these components. The Company has no sole supplier of raw materials from whom it purchases 10% or more of the annual cost of its raw materials and subcontracting services.

Below is a summary of the above data in table form:

	Off-the-shelf components	**Custom made components**
Multiple manufacturers/suppliers with no need for customization	88%	6%-7%
Multiple manufacturers/suppliers; need for little customization (potential delay of up to 3 weeks)	4%	
Single manufacturer; multiple suppliers; replacing the manufacturer may cause significant delays and may involve changes to products and associated costs	1%-2%	

1.9.20.2 The Company generally has no written agreements with suppliers of raw materials, it is not bound by framework arrangements with them (save for annual orders and certain minimum stock maintenance agreements as detailed below) and it orders materials as needed, on an *ad hoc* basis, generally against purchase orders only. The commercial terms generally applicable to the raw materials suppliers are open credit without guarantees, payment on the basis of current month + 75 days (after approval by acceptance control), predefined delivery time (sometimes including an option for the Company to change quantities and/or schedules), prices subject to volume discount, delivery and transport at the supplier's expense and the supplier's warranty for replacement of goods, at its expense, in the event of incompatibility or quality problems.

In a few cases (raw materials originating from a single producer) the Company enters into a minimum stock maintenance agreement with certain suppliers, under which the supplier undertakes to maintain stock at a certain percentage of the Company's annual consumption (adjusted on a quarterly or a monthly basis), exclusively earmarked for supply to the Company at set prices. Under these agreements the Company is obligated to purchase the minimum stock even if not ordered or upon termination of the agreement (except for items whose price has increased). These obligations are for amounts that are immaterial to the Company. Several of these agreements are unlimited in time, and the termination of activity thereunder in respect of particular items is subject to prior notice.

1.9.21 Working Capital

1.9.21.1 Inventory: The Company holds on a regular, ongoing basis about 60-100 days of components and raw materials inventory for forecasted requirements for a period of about two months. In addition, the Company holds a finished products inventory for supplying current orders for some 45-90 days. Company policy is generally to hold a finished products inventory based on actual orders or on internal forecasts made and updated on a regular basis by the Company. The Company may deviate from this policy from time to time, mainly when preparing for extraordinary events or in response to the behavior of the raw materials markets in the world (for example, in cases of fear of possible temporary shortages of electronic components throughout the world and/or limited allocations of components by the component manufacturers in certain cases of excess demand). The Company estimates that its spare parts inventory is sufficient to supply the needs of its customers. The Company manages the production processes, purchasing of raw materials, raw materials inventory and finished products inventory through a general management program that concurrently serves the Company's procurement, production, and inventory systems, and this alongside financial management and accounting (ERP - Enterprise Resource Planning). The Company has no policy regarding product returns and has not yet been required to deal with this. The Company implements, starting in Q1 of 2006, new means of inventory conservation, primarily focused on increasing the finished goods inventory on hand at the Company, and its forwarding in some of the markets to sites closer to the distributors, in order to assist the distributors and customers and to make Company products more accessible.
As part of the above move, the Company regularly reviews various options for establishing distribution centers at various locations around the world where inventory is to be stored[7] .

7 The information concerning inventory conservation methods is forward-looking information. The principal data, which served as a basis for this information are: several market surveys and academic theories concerning the various inventory conservation possibilities and their effect on the sales volume. The principal factors which may prevent this information from materializing are: opposition of distributors and/or customers to changing the inventory method, high costs entailed in implementing the change, including the need to make various investments (such as the acquisition of distribution centers abroad) regarding which there is no assurance that they will be available to the Company at all or in the required scope for implementing the change, and additional verifications regarding the effects of said changes on the sales volume.

1.9.21.2 Warranty: The Company typically provides a 12-48 month warranty for its products.

1.9.21.3 Credit extended: Customers of the Products Department are typically extended 30-90 days' credit. Below are data on average extent of supplier credit, as well as subcontractor and customer credit for the Products Department:

	2007		2006		2005	
	Average credit in NIS thousands	Average credit days	Average credit in NIS thousands	Average credit days	Average credit in NIS thousands	Average credit days
Customers	4,686	28	3,946	27	4,045	40
Suppliers	3,213	50	2,822	55	2,993	92
Subcontractors	773	59	540	48	586	82

1.9.22 Environmental Issues

As detailed in section 1.9.2 above, the WEEE (Waste from Electric & Electronic Equipment) Directive 2002/96/EC came into effect in the European Union on August 13, 2005. The provisions of this directive impose on the manufacturers of electric and electronic equipment the responsibility of handling the product at the end of its life cycle, for the purpose of reuse, recycling and even the disposal of certain components. The legislation requires the manufacturers of electronic equipment to register, report and mark the products, and imposes on them the responsibility for everything pertaining to the collection and recycling of the products. The WEEE Directive is a guideline of the European Parliament for the member states in the European Union, to apply its provisions as framework directives binding on EU citizens, subject to local legislation in each member state. Likewise, the framework directive establishes a minimum threshold of requirements; however, each and every country may, at its discretion, enhance the requirements. In practice, there is ambiguity regarding the application of this directive, due to the differences in internal legislation between the EU member states, particularly in the matter of timetables for assimilation, registration systems, marking requirements and collection infrastructures in the various countries, and even in the interpretation of the definition of a "manufacturer".

From inquiries conducted by the Company it seems that as of the date of this report, the Company's products (as defined and used) are not currently required to fulfill the provisions of the WEEE directive. Nevertheless, the provisions of this directive may apply to Company products in the future, and hence the Company follows the implementation of the directive in the various countries through its distributors, as well as through professional consultation, participation in conferences and updated professional literature. With regard to marketing in certain countries, such as Germany, the products are marked as required in accordance with the local standardization in coordination with the distributor in that country. The Company estimates that when the exact requirements for each country become clear, it can prepare by using appropriate marking, collection and recycling arrangements with its distributors and/or in any manner appropriate for the legal requirements applicable in each country[8]. As of the date of this report, the Company has

8 The information concerning Company preparations for complying with the WEEE directive is forward-looking information. The principal data which served as a basis for this information are: developments currently known

made insignificant expenditures for activities designed for compliance with the provisions of the directive. The Company estimates that it will not be expected to spend material sums associated with compliance with these provisions over the next year and/or in periods thereafter.

1.9.23 Standards and Quality Control

The Company operates a lab, equipped with instruments designed to enable the Company to check the proper functioning of its finished products, including their mechanical and operational properties, as well as their software components. This lab maintains contact with other test labs in Israel and abroad.

Most Company PLCs from the M90/M91 and Vision™ series, as well as some of its external expansion components, comply with the EN-50081-1 and EN-50082-2 standards for electromagnetic compatibility (the functioning of electronic components in an environment of electromagnetic radiation). Accordingly, the Company labels these products using the CE marking. Most Company PLCs from the M90/M91 series and Vision™ series, and a substantial part of its external expansion components, comply with the requirements of the UL/cUL 508 standard (safety aspects, including fire, temperature resistance, and electrical safety). Accordingly, the Company marks these products, and products largely based on them, with the UL/cUL marking. As mentioned, the Company operates a lab for checking the proper functioning of finished products, including mechanical and operational properties, and software components.

As mentioned in section 1.9.2 above, the Company is working concurrently to implement the EU’s RoHS (Restriction of Hazardous Substances) directive, which limits the use of six substances in electric and electronic equipment marketed in Europe after July 1, 2006. The restriction on the use of these substances, and mainly lead, necessitates changes in the electronics industry throughout the world including in the field of components production and soldering processes, which affect the components, the printed circuits and the solders (soldering alloys).

From inquiries conducted by the Company it seems that as of the date of this report, the Company’s products (as defined and used) are not currently required to comply with the provisions of the RoHS directive. Nevertheless, the provisions of the directive may apply to Company products in the future, with the major implications of the directive's applicability being the requirements to use RoHS-compatible components (free of lead and the other substances), including printed circuits (produced worldwide for many years using lead) and other casing materials, as well as to render the soldering processes RoHS-compliant (use of appropriate soldering pastes and alloys, adaptation of the temperature profiles of the soldering processes, and so on).

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to the Company regarding the directive's implementation, the technical steps needed for its implementation, and the Company's collaboration with its distributors in this matter. The principal factors which may prevent this information from materializing are the diverse implementations in the various countries, changes to directive provisions and/or their interpretation or lack of cooperation on the distributors' part in realizing the implementation, and the financial means needed for the directive's implementation, for which there is no assurance that they will be available to the Company at all or on the scope required for implementation.

In 2005 and 2006 the Company was involved in implementation of this directive by recruiting several full-time engineers engaged in identifying components of Company products which are not RoHS-compliant and replacing them with compliant components, purchasing of RoHS-compliant components and specification of manufacturing processes, including soldering, for RoHS-compliance. Concurrently, this issue is correlated with the readiness of electronic component vendors to supply compliant components. As of the date of this report, the Company has made insignificant expenditures for activities designed for compliance with the provisions of the directive, and the Company estimates, as of the date of this report, that most of its products comply with the provisions of the directive (as currently phrased). New products are designed from the outset to comply with the RoHS directive. The Company estimates that it will not spend material sums associated with compliance with the provisions of this directive over the next year and/or in periods thereafter[9].

Compliance with the above standards may be a binding legal requirement for marketing Company products in some of the Company's target markets, and in other markets it is a market requirement, although not a formal legal requirement. There is no assurance that the Company will successfully comply with requirements imposed on its products for complying with these or other standards should they be required, and failure to comply with such standard requirements could limit the Company's ability to market its products in some of its target markets.

1.9.24 Business objectives and strategy

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

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[9] The information concerning Company preparations for complying with the RoHS directive is forward-looking information. The principal data which served as a basis for this information are: the engineering stages in the development and implementation of the directive, which the Company has reached as of the date of the report, and the need for continued investment in R&D expenditures, for which there is no assurance that they will be available to the Company at all or on the required scope. The principal factors which may prevent this information from materializing are: different implementation in different countries, completion of the engineering stages needed to complete the implementation of changes, changes in the provisions and/or interpretation of the directive, as well as delays in compliance of component and assembly vendors with these requirements.

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

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

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

The Company concurrently plans to continue from time to time examining business opportunities in Israel and worldwide, which may allow enhancement of its operations both in terms of marketing and from the technological aspect. There is no certainty as to the terms of realization of such opportunities and/or whether they will be available to the Company at all. The Company is also looking into possibilities of reorganization of inventory conservation methods, as detailed in section 1.9.21.1 above.

1.9.25 Development forecast for the upcoming year

The Company estimates that it may be difficult to maintain the rate of growth in product sales, which has characterized recent years. To maintain growth in product sales, greater investments will be required than in the past in R&D and in marketing, in order to enable the Company to offer existing and other, prospective customers more competitive and efficient products designed to provide an appropriate response to those offered by its competitors.

The Company intends to continue developing, amongst other things, additional series of PLCs and/or new control products, as detailed in section 1.9.10 above[10].

10 The information concerning development of new products is forward-looking information. For details regarding the principal data which served as a basis for this information and the factors that are likely to prevent this

1.9.26 Financial information by geographical segments

Company products are sold mainly in Europe, Israel, North America, South and Central America, Asia and Africa.

Below are relative data regarding Company revenues from sales of the Products Department by major geographical region for the indicated periods, out of Company revenues from Products Department operations alone, and out of total Company revenues:

	For the year ended December 31					
	2007		**2006**		**2005**	
	In percent					
	Share of Products Department revenues	Share of total Company revenues	Share of Products Department revenues	Share of total Company revenues	Share of Products Department revenues	Share of total Company revenues
Europe	55%	32%	53%	30%	45%	21%
Israel	8%	4%	9%	5%	11%	5%
North America	20%	12%	21%	12%	26%	12%
South & Central America	10%	6%	10%	6%	8%	4%
Asia	4%	2%	4%	2%	7%	3%
Africa	1%	1%	-	-	1%	1%
Rest of the world	2%	1%	3%	2%	2%	1%

For additional data regarding Company operations by geographic segments, see note 28 to the financial statements (Chapter 3 of this report).

1.10 **Systems Sector**

1.10.1 Structure of the sector and changes therein

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

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information from materializing, see section 1.9.10 above.

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

The activities of the Company's Systems Department and certain of the components of the systems in the construction of which it engages are designed in accordance with various standards, including standards on the subject of earthquakes, lifting devices, electrical devices, safety standards and conveying standards. For further details, see section 1.10.19 below.

1.10.3 Changes in scope of sector operations and profitability

A market survey from June 2006 on the subject of supply chain management, conducted by ARC Advisory Group (summary accessible to the public at http://www.arcweb.com)[11], estimates this global market at approx. $ 5.5 billion in 2006, with expectations for growth to approx. $ 8 billion in 2010 (about 9.2% per year). Another report by this company estimates total sales of warehouse management software (WMS) at more than $ 1 billion in 2006, with expectations for growth to $ 1.3 billion in 2011. According to ARC, recent years have seen intense merger and acquisition activity in the WMS Systems sector.

The logistics systems and automated parking systems market in Israel is a highly competitive market. The Company competes for each project against several companies from Israel and international companies who are leaders in their field. The market in Israel is relatively small, and there are many competitors vying for the few projects implemented in this field every year. Economic growth and a relative improvement in the economic situation in Israel, together with the increasing complexity of business activities which the automated logistics systems and the automated parking systems are designed to handle, should, in the Company's estimation, increase the number of projects implemented in Israel in this field, including the number of projects to be implemented by the Company[12]. However, at the same time the Company estimates that due to the extensive competition in this field, and the continued development of new markets in this field outside Israel (initially, primarily in the USA), its profitability may be reduced in the future.[13]

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11 The above market survey is the most current source available to the Company. Nevertheless, as far as the Company knows, other sources exist on this issue, which are not available to the Company.

12 The information concerning a possible growth in the number of projects to be implemented in Israel in the logistic Systems sector, including the number of projects to be implemented by the Company, is forward-looking information. The principal data which served as a basis for this information are: the assumption that economic growth and a relative improvement in the economic situation in Israel, together with the increasing complexity of the business activities which the automated logistic systems and the automated parking systems are designed to handle, will impact on the demand in this field. The principal factors which may prevent this information from materializing are: lack of improvement in the economic situation in Israel and/or the world (or insignificant improvement) and/or failure of businesses to make investments, in general, and investments in automated logistic systems and automated parking systems, in particular, notwithstanding a relative improvement in the economic situation, *inter alia* for reasons of cutting expenses and/or changes in inventory maintenance and/or management policy and/or delay or absence of market recognition of the advantage of automated logistic systems and automated parking systems. Also, insofar as this information pertains specifically to the Company, other factors may prevent such information from materializing, such as the Company's inability to compete, and the other risk factors enumerated in section 1.22 below.

13 The information concerning a possible decline in profitability in the Systems sector is forward-looking information. The principal facts and data which served as a basis for this information are those presented in

At the same time, the Company's Israeli installations base, which the Company estimates to be broad as compared with its competitors, may assist the Company to provide more efficient service and technical support, and enhance its capacity to be chosen for implementing new projects of this type in the future.

The automated parking facility sector has been in existence for many years, but in recent years it has expanded with the proliferation of vehicles, dearth of parking spaces in cities and increasing cost of land. Technically, the automated parking facility sector may be associated with that of automated logistics, and it has components and technical features similar to those of automated warehouses and the conveying technologies applied thereto. The Automated Mechanical Parking Association (AMPA) established in the USA claims that this sector is expanding in the USA (http://www.ampapark.org). A study by Market-Data Enterprises Inc., dated April 2005 (summary accessible to the public at http://www.mkt-data-ent.com) estimates the total parking garage market in the USA alone at $17 billion.

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

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

1.10.5 Competitive landscape in sector and changes therein

The construction of automated logistics systems and automated parking systems involves the integration of different disciplines including, amongst others, mechanical and engineering design, construction (including foundations, shell and other construction components), supply and installation of mechanical conveying systems; design, development and installation of electrical and control systems; design, development, and installation of software systems; and coordination between all the entities participating in the construction of the system. In the logistics Systems sector the Company competes with several Israeli and multinational companies that offer services of design, installation, upgrading and maintenance of industrial systems, mainly automated warehouses and logistics systems, including companies from the Dmatic, Swisslog, Beven and Viastor Groups. In the field of warehouse management software systems the Company has several competitors, most of them Israeli, including a company from the Matrix Group. In the field of automated parking systems the Company competes with several multinational

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section 1.10.5 above concerning competition in this sector and the competitors active therein and the development programs of new markets. The principal factors which may prevent this information from being implemented are: involvement on the part of the key players in this market that differs from that anticipated and/or changes in the mix of software, hardware and mechanical components in logistic and automatic parking systems that affect profitability, as well as the development of sub-markets in the logistics and automatic parking Systems sector, with increased professionalism and focus by various producers on their own special niche areas.

companies offering services of design, installation, upgrading and maintenance of automated parking systems, including companies from the Automation, LTV and Westphalia Groups among others.

1.10.6 Barriers to entry/exit and critical success factors in the sector and changes therein

The Company estimates that in the Systems sector, the major barriers to entry include the knowledge and experience required for analysis and design of logistics systems within organizations as well as automated parking systems; the duration of sale processes for logistics systems due, among other things, to the conservative nature of the target markets for such systems; complex software systems for warehouse and parking facility management and control technologies for conveying systems within such systems; and the required support and maintenance infrastructure in order to provide the level of service and availability required of such systems. The Company estimates that the major exit barriers are its commitment to complete projects for construction of systems according to signed contracts, and its commitment to provide service for systems constructed under signed annual service contracts.

The Company estimates that, for the Systems sector, the key success factors include the knowledge and experience accumulated by the Company in design and construction of such systems; the range of solutions in response to market needs and trends; the functional reliability of the various components including the software and control systems being offered; and the high level of service and support which promotes Company reputation and customer loyalty.

1.10.7 Products and services:

The Systems sector does not include products (other than custom software for management of logistics, automated parking facility and production floor systems - see section 1.9.8.2 above and section 1.10.7.1 below), but is rather focused on delivering various services, primarily design, construction and maintenance services as part of automation, computerization and integration projects of automated production and/or logistics systems, mainly automated warehouses and distribution centers and automated parking systems (as detailed below).

1.10.7.1 Automated production and/or logistics systems and automated parking systems

The major components of these systems include the following: (a) Storage and retrieval components (a mechanical controlled and computerized system, generally comprising dedicated customized cranes installed on dedicated rails, that perform the storage, retrieval and conveying tasks); (b) A shelving system installed along either or both sides of the crane rails; (c) Conveying systems for transporting the loads to and from the automated storage system; and (d) Command and control systems for the mechanical components of the system, including PLCs, sensors and control software. Sometimes these components may also include infrastructure components, such as foundations, shell, ceiling and other structural elements.

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

The services of the Systems Department include the design and engineering of the systems, construction of new systems and/or upgrading and servicing of existing systems, up to the stage of commercial operation. After this stage the Company also offers maintenance services for these systems based on framework agreements or on call. The Systems Department also markets the Company's management software (the UniStock™ (WMS) software and the UniTrack™ software as well as the Automated Parking Facility control and management software - see section 1.9.8.2 above), which are marketed under user licenses, mainly within the framework of projects for the construction of systems as described in this section. In the Company's facilities in Airport City the Company maintains a technical office for providing service and maintenance for various systems installed by the Company's Systems Department, including a mechanical maintenance team, an electrical maintenance team, a control team, and a software team.

1.10.7.2 Trends and changes

The Company's services in the logistics Systems sector are focused mainly in the Israeli market. The Company has no statistical data and/or market studies pertaining to this field in Israel. Based on its experience from recent years in activity in this market, the Company believes there is a trend of increasing penetration of these technologies into various organizations in Israel, with the growth in the number of automated warehouses reported to have been installed in the Israeli market in recent years providing, in the Company's estimation, an indication of this trend. The Company estimates that various macroeconomic considerations, including the cost of land, manpower costs, transportation considerations and the distance of the distribution centers from population centers, could strengthen the consolidation of automated logistics technologies in the Israeli market.

As noted above, the automated parking facility sector has been in existence for many years, but in recent years it has expanded with the proliferation of vehicles, dearth of parking spaces in cities and increasing cost of land. The Company estimates that various macroeconomic considerations, including the cost of land, manpower costs, transportation and environmental considerations, and the need to improve drivers' welfare, could strengthen the consolidation of automated parking technologies worldwide.

On the other hand, one of the significant attributes of this activity is the relatively large financial scope of a limited number of orders for services which are characterized as non-recurrent services. This attribute creates a high exposure of sales volumes and profitability in the Systems sector, and in general, to the influence of a relatively small number of projects slated to be implemented at any given time.

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

Concurrently with the Company's activity in Israel in the Systems sector, the Company is examining possibilities for strategic collaborations outside of Israel (in the first stage primarily in the USA), with a view to developing additional markets for the services of the Systems Department, such as the automated parking sector as described above. This activity is in the initial stages and there is no certainty that the process will ripen into actual business activity, or regarding the terms of such activity and its effect on the Company, in the event that it materializes.

1.10.8 Revenue and profit segmentation

The Company's revenues from its activity in the Systems sector amount to approx. 53%, 43% and 41% of its total revenues in 2005, 2006 and 2007, respectively. The bulk of the revenues from this activity derive from customers entering with the Company into onetime transactions for the purpose of constructing one system only. The contribution to the profitability of the Company's operations in the Systems sector varies from transaction to transaction, mainly according to the Company's status as a main contractor (which is usually characterized by a larger financial scope and lower profitability, mainly due to the need for subcontractors) or as a subcontractor (which is usually characterized by a lower financial scope and higher profitability, mainly due to the use of its own resources), and in accordance with the particular technical and functional requirements of each particular transaction and the results of the negotiations with the entities ordering the service in each particular case.

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

	For the year ended December 31		
	2007	**2006**	**2005**
	In NIS thousand as reported (and percentage of total revenues/gross profit, approximated)		
Systems	(41%) 41,613	(43%) 40,370	(53%) 42,862
Gross profit (amount and rate)	(11%) 4,578	(15%) 6,257	(14%) 6,113

1.10.9 Customers

The direct customers of the Systems Department are generally the end user, in most cases industrial and/or logistics businesses, generally in the private sector (although in a few cases these are customers from the public sector, including the defense forces or local authorities), that need an automatic warehouse, automatic parking, dispatch systems and/or automatic logistic centers, and which contact the Company for acquiring a single system. The Company has no certainty of acquiring new customers in the Systems sector of a certain scope or at all. Customers of the Systems Department generally retain the Company's services for designing one single new automatic system and/or constructing a system at the customer's site and to provide services and support for the system after it is rendered operational. In certain cases the Company is retained for the servicing, improvement, upgrading, or enhancement of an existing system at the customer's site (installed by the Company or by a third party). The services of the Systems Department are currently provided mainly in Israel, to customers from numerous sectors, including food processing, pharmaceuticals, import/export warehouses, logistics centers, etc. In some cases the party retaining the Company is the principal contractor hired by the end user to integrate an entire system, who subcontracts to the Company's specific tasks only, such as the design of the system or the installation of PLCs in the system.

The services of the Systems Department are provided pursuant to agreements whose terms vary on a case to case basis but which generally incorporate a list of defined and detailed tasks, technical and functional specifications which the system that is being constructed will be required to meet, timetables (generally ranging from 3 to 15 months for setting up the system, depending on its complexity and other factors, which vary from case to case) and milestone payments according to the work progress. Under these agreements the Company is generally required to furnish guarantees (mostly bank guarantees) to secure performance of its obligations. As of the date of the report, the Company furnished bank guarantees as aforesaid for a total cumulative sum of approx. NIS 62 thousand. Within this framework the Company is obligated, under promissory notes concerning the issue of bank guarantees to: (a) repay any amount demanded by the bank and/or paid by the bank with respect to or in conjunction with said guarantees, and to repay all amounts to the bank with interest at the highest rate and bank fees; (b) indemnify or compensate the bank in any case of legal proceedings or claims filed against the bank, resulting in damages, expenses or losses to the bank in relation with the guarantees, either directly or indirectly; and (c) waive any claims against the bank relating to the provision of guarantees.

The Company further undertakes to train the customer’s employees to operate the system, and grants a 12-month warranty period on average for the major components of the system, which generally includes an undertaking to commence attending to certain malfunctions within predefined timetables, a commitment to provide service against payment at the end of the warranty period, and an undertaking as to the availability of spare parts for defined periods.

Major Customers: 10% or more of the Company’s consolidated income in the periods detailed below derive from customers who have ordered automated systems who enter into a one-off transaction with the Company, whose termination, including under the terms stated therein, without being replaced by new customers making purchases on a similar scope, could materially impact the Company's revenues.

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

	For the year ended December 31					
	2007		2006		2005	
	Share of total revenues (in percentage)					
	Of sales of Systems Department	Of total Company sales	Of sales of Systems Department	Of total Company sales	Of sales of Systems Department	Of total Company sales
Customer A	1.8%	0.7%	1.2%	0.5%	20%	10%
Customer B	24.9%	10.1%	2%	0.8%	38%	20%
Customer C	8.1%	3.3%	39.7%	16.9%	13%	7%
Customer D	14.6%	5.9%	0%	0%	0%	0%
Total sales to major customers	50.8%	20.7%	42.9%	18.2%	71%	37%

Agreements with major customers: below are the major terms and conditions of agreements between the Company and customers whose revenues account for at least 10% of the Company's consolidated revenues in the aforementioned periods, in addition to general terms and conditions applicable to such agreements as stated in section 1.10.9 above:

(a) Material agreement A: Under an agreement from February 2004 between the Company and principal customer A (Teva Pharmaceutical Industries Ltd.), the Company undertook to design, develop, produce and install an automatic warehouse system in a pharmaceutical factory for a total sum of approx. € 3.3 million, plus VAT. In accordance with the agreement, the bank guarantees for securing the Company's obligations were provided by SSI, which serves as a subcontractor of the Company in this project. SSI further provided the customer with a personal bond for securing the Company's obligations under the agreement with that customer.

As part of the subcontracting agreement between the Company and SSI, the Company undertook to furnish to SSI a personal bond against the personal bond furnished by SSI to the customer. In addition, mechanisms were agreed upon with SSI for the supervision and control of the consideration moneys (excluding VAT) to be paid to the Company according to the agreement with the customer, in order to secure the payments due to SSI from the Company.

The installation of the system was completed in accordance with the terms of the agreement as amended by the parties, in the course of 2005.

(b) Material agreement B: Under an agreement from July 2004 between the Company and principal customer B (Scope Metal Trade & Technical Services Ltd.), the Company undertook to design, supply and install an automatic logistics system in the customer's factory in Israel. The customer engages in the import, processing, manufacture and marketing of raw materials and metal products. According to the agreement the system is to be based on PLCs and additional software and command tools of the Company, as well as other assemblies and components to be supplied and installed directly by various subcontractors, under the Company's supervision. According to the agreement, as revised from time to time after the signing thereof (last revised in January 2005), the cumulative amount of the contract (linked to the Euro) is approx. NIS 23.5 million plus VAT. Installation of the system was completed in accordance with the terms of the agreement with the customer in the course of 2005.

(c) Material agreement C: Under an agreement from June 2006 between the Company and principal customer C (Tnuva Cooperative Agricultural Produce Marketing Ltd.) which became effective in April 2006 [14], the Company undertook to design, supply and install an automated logistics system for the Beer Tuvia regional distribution center for a total cumulative amount of €3.7 million (NIS 21 million) plus VAT. The installation of the system was completed, in accordance with the terms of this agreement with the customer, during 2007.

(d) Material agreement D: According to an agreement signed in December 2006, between a fully-owned US subsidiary of Unitronics and principal customer D (City of Hoboken, NJ in the USA), the Company undertook to repair and upgrade an automated parking system operating in the city by repairing mechanical and electrical systems and replacing software and control systems for a total amount of about $2 million (about NIS 8 million). The upgraded system is operational since the last quarter of 2007, and the payment has been made in full upon the completion of the project, in December 2007.

The Company regularly examines the credit that it has provided to customers and the potential losses that could arise from the provision of credit to customers. The Company makes specific provisions for debts whose collection is doubtful.

1.10.10 Marketing and distribution

In the systems sector, an in-house marketing and sales team operates in Israel, including a number of employees handling relations with potential customers, responding to tenders, preparing price proposals, promoting customer relations and locating business opportunities in Israel and overseas, with assistance from the customer's network of distributors as required (for details of the Company's network of distributors, see section 1.9.12 above).

[14] Actual project execution started in Q4 of 2005 as detailed in the table above.

1.10.11 Order backlog

Sales of the Systems Department services entail a long sales cycle which requires considerable time and resources, including participation in tenders and presentations, along with other participants, and the services are rendered over a period of 3-15 months, depending on system complexity. Below are data on binding agreements for the Systems Department services in the periods as follows:

	Agreements to deliver Systems Department services as of December 31, 2007 – thousand of NIS	**Agreements to deliver Systems Department services as of March 1, 2008 (closest possible date to date of this report) thousand of NIS**
For Q1 2008	1,007	197
For Q2 2008	1,218	1,906
For Q3 2008	176	1,042
For Q4 2008	192	668
For 2009 and thereafter	141	184
Total	2,734	3,997

Differences in reported order backlogs for different periods arise from changes in milestone schedules of current projects on the one hand, and from receipt of new orders for projects on the other hand, all within the ordinary course of the Company's business.

The change in amounts from one quarter to another are due to growth in orders as well as to delivery of certain elements of projects being shifted from one quarter to another (mostly due to customer non-compliance with preliminary requirements for project delivery and/or other delays caused by customers).

1.10.12 Competition

The Company has no statistical data to determine the size of the Israeli market however, it estimates that this market has in recent years ranged between $ 20-40 million a year. The Company estimates, based upon the above data, that its share of this market is between 15% and 30%.

The majority of the Company's competitors are larger and more established companies, whose financial and other resources significantly exceed those of the Company, including R&D, marketing and sales resources, as well as a recognized brand name in the market. These competitors are able to react quicker to changing market needs, and also to offer customers more flexible and convenient financing terms than those offered by the Company, thereby limiting the Company's ability to compete effectively. There is no certainty that the Company will be successful in competing in this market, and its competitors may succeed in biting into its market share.

The Company competes and intends to continue competing, primarily on the basis of the quality of its services compared to that of its competitors (including service functionality, performance and quality of the technical support and customer service provided by the Company). However, there is no certainty that the existing or potential customers will regard the Company's services as more worthy than those of the competitors. Similarly, there is no certainty that its competitors will not develop services that will render the Company's services less competitive.

1.10.13 Seasonality

The Company does not identify in the systems sector any significant seasonal pattern. Its services are consumed throughout the year without any fixed seasonal patterns.

1.10.14 Production capacity

In the Systems sector, production capacity is in fact the Company’s ability to implement projects of scope and upon the schedules ordered, and is primarily based upon the Company’s internal staff, whose number was significantly increased in the years 2002-2006 (as detailed in section 1.14 in this report), concurrent with a growth in the Company’s activity during these years, in this sector. As of the date of this report, the Company is exploiting this production capacity to the fullest, taking into account existing agreements for the installation of systems in the course of 2008. The Company adapts its production capacity in this area (including recruitment and increase of staff) in accordance with agreements for the installation of systems and/or system maintenance, which are entered into from time to time.

1.10.15 Fixed assets and facilities

The Company has no fixed assets and facilities that are specific to the sector, and utilizes the fixed assets and facilities in the course of its activity in both sectors (for details, see section 1.12 below).

1.10.16 Human Capital

The activity of the Company's staff is by departments, with staff employed and involved in both of the Company’s sectors, with the staff of each department focusing primarily in the specific sector (for details see section 1.14 below).

1.10.17 Suppliers and subcontractors

For the performance of certain of the tasks in accordance with agreements with various customers (mainly the supply and installation of cranes, rails, conveyors and shelving) the Company generally hires specific subcontractors, mainly the German company SSI Schaefer Noell Gmbh (hereinafter: "**SSI**"), and others. The principal terms of the agreements with the subcontractors are, in most cases, an adoption of the Company’s commitments under the agreement with the customer (back-to-back), with respect to the system's components to be supplied by the subcontractor (for details see section 1.10.9 to this report).

Furthermore, the Company usually links the payment currency and the date of payment to subcontractors to the currency and date in which the Company receives payment from different customers with regard to the specific component delivered by the subcontractor (back-to-back). This means that typically payment is made to the subcontractor only after receipt of the applicable payment from the customer.

1.10.18 Working Capital

1.10.18.1 Warranty: The Company typically provides warranty for major sub-systems in the Systems sector for 12 months on average.

1.10.18.2 Credit extended: customers of the Company's Systems Department are generally granted credit for a period of up to one month. Below are data on average extent of supplier credit, as well as subcontractor and customer credit:

	2007		**2006**	
	Average credit in NIS thousands	Average credit days	Average credit in NIS thousands	Average credit days
Customers	4,686	28	3,389	31
Suppliers	1,171	279	891	98

1.10.19 Regulation and Quality Control

The activities of the Company's Systems Department in the supply, installation, maintenance, and upgrading of transport systems, automated warehouses and parking facilities, and control systems, comply with the requirements of ISO 9001, version 2000. Certain components of the systems constructed by the Company's Systems Department, are designed in accordance with various standards, including Israeli Standard IS 413 on the subject of earthquakes (regarding the structure of the warehouse and the shelves array); standards on the subject of hoisting facilities such as IS 1202 (hoisting facilities - steel cables, for cranes and elevators); and standards on the subject of electrical installations and other safety standards. The compliance of Company-constructed systems with these standards' requirements is generally checked by professional inspectors, independent of the Company, who test each system individually, as part of the processes for completing the system, for delivery to the customer. Specific standards are also in force in Israel in the conveying Systems sector, specified by the European conveying equipment manufacturer association, which address, among other issues, the functionality of facilities and systems.

Compliance with the above standards is a binding legal requirement for marketing Company services in some of the Company's target markets, and in other markets it is a market requirement, although not a formal legal requirement. There is no assurance that the Company will successfully comply with requirements imposed on its services in order to comply with these or other regulatory requirements, should they be required, and failure to comply with the provisions of such regulatory requirements may limit the Company's ability to market its services in some of its target markets.

1.10.20 Business objectives and strategy

The Company strives to position itself as a leader in the field of automated logistics systems and automated parking systems in Israel and to expand its activity in this field overseas via export of its capabilities and its technologies. Criteria for evaluating success in achieving these objectives include, *inter alia*, number of installations (systems constructed with its participation) annually in Israel and overseas, quantity and volume of sales of technologies and management products to customers and other entities overseas with which the Company collaborates in operations in this field, satisfaction of customers and the business entities with which the Company interacts, and the overall contribution of the Systems sector to the Company's profitability.

In order to realize these objectives, the Company plans to continue improving the level of "shelving" (turning into off-the-shelf products) of the management and control software programs for logistics systems and automated parking systems developed by it, and to continue developing and improving these products on the basis of continuous analysis of market trends, market surveys conducted from time to time, and responses from customers and business entities with which it interacts. There is no assurance regarding the Company's ability to actually improve current products and to develop new products in the Systems sector, and this depends, among others, on analysis of market needs and consumer preferences as expressed in informal contact the Company maintains with such markets, technological feasibility, cost of potential development as well as the severe competition in the sector, as detailed in this report.

The Company further plans to continue developing and strengthening the marketing infrastructure of the Systems sector in Israel and the business development activity *vis-à-vis* overseas entities with which there is a potential for collaboration in the systems market outside Israel - in the initial stage mainly in the USA and mainly in the sector of automated parking facilities (see agreement with Principal Customer D as per section 1.10.9 above). There is no assurance regarding the Company's ability to maintain and develop its marketing channels for its Systems sector, and this depends, among others, on analysis of marketing attributes and markets for Company services conducted by the Company from time to time, and the long and complex sales process for such services, as detailed in this report.

The Company also plans to concurrently continue, from time to time, to examine business opportunities in Israel and worldwide, which may allow enhancement of its operations both in terms of marketing and from the technological aspect. There is no certainty as to the terms of realization of such opportunities and/or whether they will be available to the Company at all.

1.10.21 Forecast for developments during the upcoming year

The Company estimates that it may be difficult to maintain the rate of growth in Systems Department sales which has characterized recent years. In order to keep up the growth in systems sales, greater investments will be required than in the past in marketing, sales promotion and staff training, in order to enable it to present to existing and potential customers competitive and more efficient services designed to provide an appropriate answer to those offered by the Company's competitors.

The Company plans to continue directing additional resources for marketing activities and the penetration of specific export markets, with a view to expanding the scope of its target markets for these Systems Department activities, and in order to reduce its dependence in this regard on the Israeli market - initially primarily focused on the USA[15].

The Company expects an increase in the development expenses, required for the development of components in this sector, intended, inter alia, for the purpose of reducing production costs in the Systems sector.

1.10.22 Financial information on geographical segments

The Systems Department activity is focused in Israel, but is also carried out overseas.

For additional data regarding Company operations by geographic region, see note 28 to the financial statements (Chapter 3 of this report).

1.11 Other Activities

The Company has a further activity, not included with the major areas of activity above, with insignificant revenues and investments associated with it. This activity is primarily concerned with maintenance and servicing by its subsidiary, Unitronics House Management and Maintenance (2003) Ltd., in conjunction with use of Unitronics House (for details of subsidiary operations, see section 1.21.1 below).

The table below presents the Company's income from the operation of its subsidiary above mentioned for the indicated periods:

	For the year ended December 31		
	2007	**2006**	**2005**
	NIS in thousands		
Revenues from Unitronics Management operations	699	700	711

15 The Company's ability to succeed in the development and strengthening of the Company's marketing organization in the Systems sector is forward-looking information. The principal data which served as a basis for this information are: analysis of characteristics of marketing and markets of the services provided by the Company's Systems Department as conducted by the Company from time to time, and the protracted and complex process of sale of these services as detailed in this report. The principal factors that are likely to prevent this information from being implemented are: the strong competition in this field, and the need to identify distributors and/or potential collaborations with appropriate business entities that are capable and experienced in the Systems area.

Part IV - Matters concerning overall Company activities

1.12 Fixed assets, facilities, insurance and liens

The principal fixed property used by the Company comprises the Unitronics House at Airport City, where the Company's offices and its other facilities in Israel are located. The fixed property further consists of computer systems, an automated logistic system, vehicles, laboratory equipment and office furniture.

In July 2006, the Israeli Institute for Accounting Standards published Accounting Standard No. 29 "Adoption of International Financial Reporting Standards (IFRS)" (Hereinafter: the "**Standard**"). Pursuant to the Standard, the Company is required to include in a note to the annual financial statements as of December 31, 2007, the balance sheet data as of December 31, 2007 and the income statement data for the year then ended, once the recognition, measurement and presentation rules of the IFRS have been applied thereto.
The impact of transition to reporting under IFRS on fixed asset items is described in section 2.000 in the Board of Directors' Report, and set forth in note 31 to the Company's financial statements.

1.12.1 Unitronics House - lease from the Israel Land Administration: The Company leases the ground floor (including basement) and first floor (hereinafter: the "**Company's Floors**") in a building called **Unitronics House**, covering an area (excluding basement) of approx. 1,600 square meters gross, formally known as part of block 6832, parcel 27 (after initial sub-division of the lot marked #3 on the zoning plan known as GZ/MK/566/1) at the address: Airport City, P.O.B 300, Ben-Gurion Airport, 70100, Israel (hereinafter: "**Unitronics House**"). The Company also leases an additional lot of about one quarter acre adjacent to Unitronics House, serving as parking space for Company staff and visitors. Under an agreement from August 23, 2000 with Airport City Ltd. (hereinafter: "**Airport City**") the Company acquired a capitalized lease right (91%) in the Company's Floors for 49 years, to be registered in its name not later than November 2007. As of the date of the report the Company's rights have not yet been registered with the Israel Land Administration.
However, as of the date of this report, the Company began attending to the signing of lease agreements with the Israel Land administration, as well as other documents relating to the registration of the Company's rights as aforementioned. In this context, the guarantee letters issued to the Company under the Sales Law were amended in a manner allowing for their exercise after November 2007, until the completion of the procedure.
The Company's rights in the Unitronics House serve as collateral for financing received by the Company for acquiring its rights in the building as detailed in sections 1.16.2-1.16.3 in this report. The balance of the depreciated cost of the Company's Floors as of December 31, 2007 is approx. NIS 18,415 thousand. In its ongoing activity the Company uses all areas of the Company's Floors in Unitronics House. The remaining floors in Unitronics House (floors 2-4) are leased from the Administration by a company controlled by the controlling shareholder of the Company who also serves as the Chairman of its Board of Directors and CEO (hereinafter: the "**Private Floors**"), and are let to third parties, apart from approx. 632 square meters which are let to the Company (as detailed in section 1.12.2 below). The rights in the Private Floors were acquired about one month

prior to the Company's rights acquisition in the Company Floors, under a separate contract, unrelated to the Company or to the contract under which the Company acquired its rights in the Company Floors, and at a price per square meter based on the same pricing basis which applied to the Company's acquisition of its rights.

1.12.2 Unitronics House - lease from a controlling shareholder: In addition to the Company's Floors which are utilized by the Company in full, as of August 2004 the Company rents approx. 196 square meters on the Private Floors, at terms identical to those at which areas on the Private Floors are let to third parties, which also reflect generally accepted rental terms in Airport City. The lease is for a term of three years, with an option for the Company to extend it for two additional terms of 12 months each. The rent is $12.5 per square meter per month (plus management fees to Airport City at $1 per square meter per month, and management fees at $2 per square meter per month to the Company's subsidiary, Unitronics House Management and Maintenance (2003) Ltd, with respect to the management of Unitronics House), subject to a 4% increase at the end of every two years of leasing. The Company may terminate the agreement at any time subject to the introduction of a substitute tenant acceptable to the lessor. Due to the expansion of the Company's commercial activity in the ordinary course of its business, and further to the recruitment of additional manpower and the growth in activity, an actual need had developed to expand the areas from which the Company operates. Therefore, in August 2005 the Audit Committee and the Board of Directors of the Company resolved to approve an amendment to the lease agreement from August 2, 2004, pursuant to which the Company is to rent from the lessor, effective from August 1, 2005, an additional 436 square meters under the same terms. On March 25, 2007 the Company's board of directors and audit committee approved the exercise of the above option to extend the lease for an additional 12 month period (see the immediate report concerning an "Exceptional Transaction" with an "Office Holder" dated March 26, 2007 and section 4.8.2 in this report). The Company intends to exercise the above option and extend the lease agreement by an additional 12 months.

1.12.3 Unitronics Inc.: The Company's subsidiary, Unitronics Inc., rents offices near Boston, Massachusetts from a third party unaffiliated with the Company and/or with its controlling shareholders, covering a total area of approx. 1,521 square feet (approx. 141 square meters), let for a 24-month term until March 2009, for annual rent of approx. $35,000 for the period through March 2008 and $38,000 for the period through March 2009.

1.12.4 Computer systems: The Company owns a system of computers and peripheral equipment which it uses for its current activities, in the various applications required by it for design, development, production, marketing and current operations. Amongst other things, this equipment includes an array of servers, workstations, security and protection systems, backup systems and various communications infrastructures. The system infrastructures are designed to permit a certain degree of flexibility for future growth in the volumes of activity.

During 2007, the Company installed an automatic warehouse in its facilities in the Unitronics House at Airport City.

ERP (Enterprise Resource Planning) software is installed at the Company, which is used concurrently by the Company's purchase, production and inventory organizations, together with finance management and bookkeeping, management of customer relations and orders, project management, service and maintenance management and so forth. The Company holds licenses unlimited in time for use of this software, not subject to any payment (apart from payments made as part of installation and adaptation of the software for the Company's purposes, and other payments in the event of the addition of users and/or upgrades).

Regarding Microsoft operating systems and Microsoft Office products, the Company holds licenses for use on an annual basis in the framework of which it receives ongoing version updates and upgrades. In other fields the Company holds licenses to use the various software programs and software tools installed on its computers at customary terms in the field.

1.12.5 Insurance

The Company and its subsidiaries are insured under an insurance policy which the Company estimates provides it with appropriate insurance coverage, as detailed below:

1.12.5.1 Property Insurance

The Company is insured by an extended fire insurance providing insurance coverage for customary risks for such insurance, including fire, earthquakes and other natural damages as well as an "all risk" coverage rider.

1.12.5.2 Insurance for Causal Damages

The Company is insured for fixed expenses and annual net profit of $10,000,000 plus other expenses for $250,000.

1.12.5.3 Third Party Insurance

The Company is insured for third party liability up to $5,000,000 per event and in total for damages which may occur during the insurance period.

1.12.5.4 Officers Liability Insurance

For details, see section 4.16.4 in this report.

1.12.5.5 Insurance for Unitronics Inc.

The Company's US subsidiary, Unitronics Inc., has insurance coverage separate from that of the Company. Such insurance includes homeowners insurance for $1,000,000 per event and $2,000,000 in total; worker's compensation insurance for $100,000 for accidental bodily injury, $100,000 per employee for bodily injury due to illness and in total $500,000 for bodily injury due to illness; and warehouse insurance for $1,000,000.

1.12.5.6 Other <u>various insurances</u>

The Company holds various other insurance policies, including contractor's insurance, employer's liability insurance, product liability and professional liability insurance, export-import shipment insurance and insurance for merchandise in transit.

1.12.5.6 The Company estimates that the Company is NOT under-insured.

1.12.6 <u>Pledges</u>

Other than pledges detailed in section 1.16.3 in this report, some of the Company's vehicles are subject to pledges in favor of the leasing companies from which the Company leases said vehicles.

1.13 <u>Intangible assets</u>

1.13.1 <u>General</u>: The Company claims copyrights and usage rights with respect to certain technologies, know-how, trade secrets and trademarks (with regard to patents and trademarks, see below).

The Company protects its trade secrets and intellectual property rights primarily through confidentiality agreements with its employees and consultants, and certain of its customers. There is no certainty that these means afford adequate protection and they cannot protect the Company against competing developments that may be independently developed by third parties.

1.13.2 <u>Patent applications:</u> In September 2004 the Company filed a patent application with the United States Patent and Trademark Office with respect to certain features of the WilCo™ technology (see above), further to the filing of a provisional patent application in September 2003. On May 29, 2007, the patent was registered in the US under the number: 7,225,037. Concurrently, the Company filed an application to register a patent under the international Patent Cooperation Treaty (PCT). As of the date of this report, a patent has not been registered in other countries, except for the US.

In May and October 2007, the Company filed provisional patent applications with the United States Patent and Trademark Office with respect to certain features of technologies related to automatic parking facilities. As of the date of this report, no patents have been registered pursuant to these applications and therefore, the Company does not have registered patent protection for these technologies against competing technologies independently developed by third parties. To the best of the Company's knowledge, the time required for actual patent award may be 3-5 years. Nevertheless, there is no assurance that patents applied for by the Company will be deemed innovative or will be registered within the above timeframes.

1.13.3 <u>Application for trademark registration:</u> the "Unitronics" name and the Company's logo have been registered as trademarks in Israel and in the US.
In July 2005 the Company filed with the European Union Trademark Office an application to register the name "Unitronics" and the Company's logo as trademarks. In

September 2006 the Company's logo was registered in Europe pursuant to the above application.

The OPLC trademark, which is used to describe the Company's products, which integrate an Operator panel and PLC, was registered as trademark in the US in June 2007.

The Company filed with the United States Patent and Trademark Office and with the Israeli Registrar of Patents, Designs and Trademarks, applications to register trademarks for names, designs (logo) and various samples, which are used by different product families of the Company. As of the date of this report, such trademarks have not yet been registered pursuant to the above applications.

The Company estimates based also on a "trademark research" conducted by the Company and various checks conducted by the Company's professional advisors from time to time, that there is a fair likelihood that its applications to register these trademarks will be accepted[16].

1.13.4 Domain names on the Internet: The Company purchased rights to use domain names (as well as domain names with country suffixes) under which it presents information about itself, its products and related matters. The Company uses these names as website addresses intended for communication with existing and prospective customers. In accordance with accepted practice, the Company is entitled to continue using these sites exclusively so long as it pays annual usages fees (in immaterial amounts) to the company maintaining the site.

1.13.5 In the years 2007, 2006 and 2005 the Company's expenses on investment in its intellectual property amounted to NIS 64,000 NIS 156,000 and NIS 110,000, respectively.

1.14 Human Capital

1.14.1 Organizational structure: The controlling shareholder of the Company, Mr. Haim Shani, serves as the Company's CEO and as Chairman of its Board of Directors.[17] .Several senior professional officers are subordinate to the CEO as set out in the chart below, in the fields of technology, finance and human resources. The Company's commercial activity is performed by the Products Department and the Systems Department, each headed by a senior professional officer who is subordinate to the CEO. Below is the organizational structure chart of the Company and the number of employees employed by it as of the date of the report according to the organizational structure:

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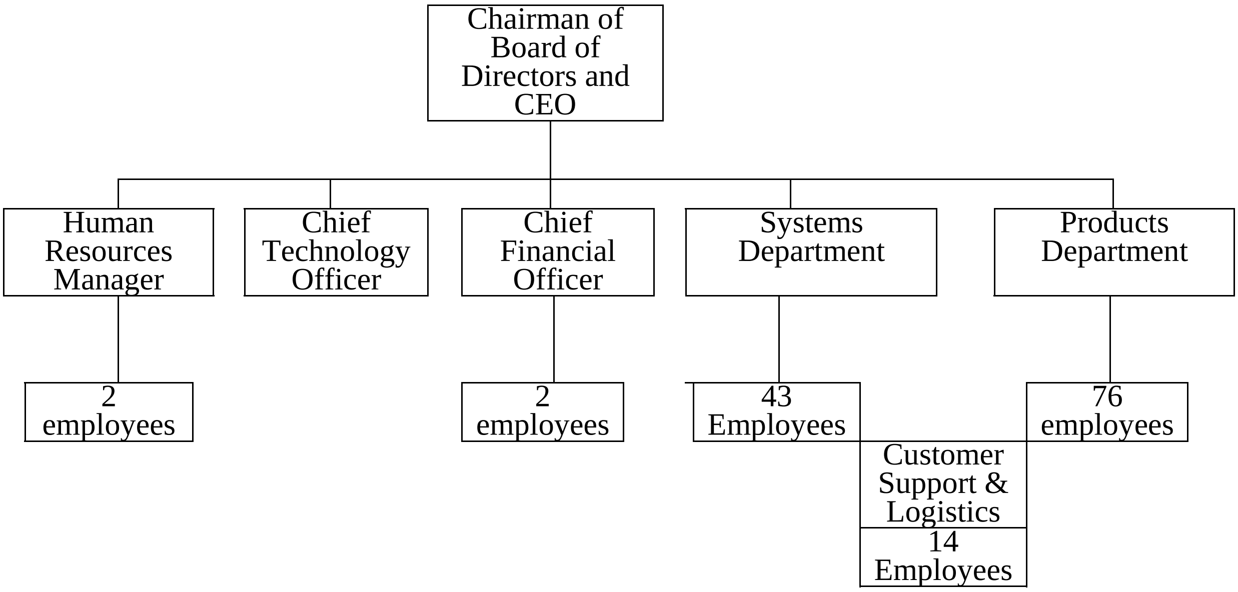
[16] The Company's estimates regarding its success in registering trademarks based on applications submitted is forward-looking information. The principal data which served as a basis for this information are: trademark research conducted by the Company and various checks conducted by Company's professional advisors from time to time. The principal factors that are likely to prevent this information from materializing are: the existence of competing priority trademarks that were not identified by the Company and/or failure to identify the major attributes and criteria for conducting a trademark search by the Company, as described above.

[17] Pursuant to the resolution of the general meeting of the Company's shareholders from April 13, 2004 and the resolution of the general meeting of the Company's shareholders from July 3, 2007 (for details see an immediate report on the appointment of a senior officer (excluding the appointment of a director and excluding an individual appointed on behalf of a corporation) dated July 3, 2007, as well as an immediate report concerning the results of an annual general meeting of the Company's shareholders dated July 3, 2007). See also Section 4.16.5 below.



1.14.2 Company employees and breakdown: In proximity to the date of this report the Company employs 128 employees in Israel; the subsidiary Unitronics Inc employs 5 employees (without written personal employment agreements). The subsidiary Unitronics House Management & Holdings (2003) Ltd. has no employees. Below is the breakdown of the Company's employees in Israel by area of activity as of the relevant dates:

	No. of Employees		
Area of Activity	**Close to date of this report**	**31.12.2007**	**31.12.2006**
Sales and Marketing	20	21	15
Research and Development	30	31	35
Administrative	10	12	12
Production, logistics and quality control	44	45	33
Integration and Support	39	39	37
Total	**143**	**148**	**132**

Employee breakdown by occupation

Occupation	No. of Employees		
	Close to date of this report	**31.12.2007**	**31.12.2006**
Administration staff	8	12	11
Professional technicians	14	14	10
Software Programmers (academic)	27	28	30
Engineers	17	17	19
Technicians, warehousemen and mechanical assembly staff	27	27	18
Academics (general)	18	18	15
Associate Engineers	32	32	29
Total	143	**148**	132

As of December 31, 2006, the subsidiary Unitronics Inc. employed 5 employees, and the subsidiary Unitronics House Management and Holdings (2003) Ltd. had no employees. As of December 31, 2005, the subsidiary Unitronics Inc. employed 5 employees, and the subsidiary Unitronics House Management and Holdings (2003) Ltd. had no employees.

The Company substantially increased its workforce between the years 2004 - 2006 as detailed above, in line with the growth in its activity and in order to implement its business plans. The main increase in manpower (as detailed in the table above) was in the fields of research and development, integration and support, and marketing and sales, in accordance with the emphasis during those years on activity in research and development, the growth in the Company's activity in the logistics Systems sector and the expansion of the Company's marketing and support channels. The Company estimates that additional manpower will be recruited for the development and marketing staff over the coming quarters[18].

1.14.3 Terms of employment: Most of the Company's employees work on the basis of written personal employment agreements, incorporating customary obligations as to confidentiality, non-competition and non-disclosure of the Company's intellectual property. The Company's liabilities in respect of benefits associated with termination of employee-employer relationship are partly covered through payments to senior employees insurance policies and pension funds. For the balance of Company liabilities in respect of

18 Information regarding the expected growth in staffing is forward-looking information. The main data constituting the basis for this information are the Company's development plans as set forth in section 1.9.18 in this report, the actual stages of development on the date of the report of the technology being developed at the Company and the need for continued implementation of the Company's research and development plans. The main factors likely to prevent this information from being implemented are changes in the Company's development plans arising from reasons beyond the Company's control (such as market needs and consumer preferences, competitors' developments, prices of raw materials and services required by the Company), the lack of budget to finance the expenses required for continued development in general or in the scopes required for the Company, and possible technological difficulties relating to the completion of the development stages pursuant to these plans.

such benefits not covered by such payments, adequate provision has been included in its financial statements.

Employment relations between the Company and its employees are governed by the provisions of the general collective bargaining agreement applicable to the metal, electricity and electronics professions by virtue of an extension order. The provisions of the collective bargaining agreement pertain in substance to maximum working hours, minimum wages, provisions to pension funds, cost-of-living increments (according to the Consumer Price Index), various insurances (in the event of illness or work accidents), dismissal, severance pay and other provisions pertaining to terms of employment. The Company generally provides terms of employment which are equal to or better than the minimum terms specified in the collective bargaining agreement.

From time to time the Company grants its employees options to purchase its shares under the option plans it adopted (for details see section 4.10.3 in this report). Except as stated in section 1.14.4a below, the Company is not obligated to grant options to any of its employees, and in practice options are granted by the Company's Board of Directors, according to management recommendations, and at the sole discretion of the board of directors.

1.14.4 Officeholders and officers of the Company:

(a) The Company has personal employment agreements with Mr. Haim Shani (controlling shareholder and Chairman of the Board of Directors) and with Ms. Bareket Shani (Mr. Shani's wife, who also serves as a member of the Board of Directors), up to December 2008 subject to additional five-years extension periods (subject to all approvals required by law). Pursuant to the agreements Mr. Shani serves as the Company's CEO and Ms. Shani serves as Deputy CEO and Human Resources Manager. Under the agreements Mr. and Ms. Shani are entitled to: (a) a monthly salary in the sum of $15,000 and $7,500, respectively; (b) options in a quantity no less than 115% of the number granted to the most senior employee in the Company after Mr. Shani and Ms. Shani, each, subject to all approvals required by law including the approval of the Tel-Aviv Stock Exchange for listing the shares underlying the options for trade on such exchange as well as the approval of the general meeting of the Company's shareholders pursuant to Section 275 of the Israeli Companies Law; (c) customary social benefits such as senior employees insurance (contributions of 5% of monthly salary by the employee and 13.33% by the Company), continuing education fund (contribution of 2.5% of monthly salary by the employee and 7.5% by the Company), use of a company car (without determination of a particular car category) and reimbursement of expenses; (d) annual vacation of 30 days which may be accumulated over a period of two years only. Termination of the agreement with Mr. Shani is subject to approval of 75% of the directors and to prior notice of at least 6 months. Mr. Shani may terminate the agreement for any reason whatsoever subject to 3 months' prior notice. With respect to Ms. Shani, each party may terminate the agreement by a 2-month notice, and the Company will be required to provide a substantive explanation for the termination, if initiated by the Company.

Mr. Shani and Ms. Shani agreed (voluntarily) to a decrease of 5% in their wages for a period of 12 months as of January 1, 2003. On April 12, 2005, the General Meeting of the Company's shareholders resolved to approve, following approval of the Company’s audit committee and board of directors, the payment of a special bonus to Mr. Haim Shani as compensation for his contribution to the successful performance of the Company in the few years preceding 2004 in general, and in 2004 in particular, and for the Company having registered net profit in such year. The cost of the bonus to the Company amounted to approx. NIS 400,000. In addition the general meeting of the Company's shareholders approved a framework transaction pursuant to which Mr. Haim Shani is to receive an annual bonus for each calendar year starting from 2005, as long as Mr. Shani is employed as the Company’s CEO (hereinafter: the **“Future Bonuses”**), within 30 days from the date of approval of the financial statements by the Company’s Board of Directors in respect of every such calendar year, at a rate of 7.5% of the pretax profit in that year (cost to the Company) (hereinafter: the **“Framework Transaction”**). The Future Bonuses are to be calculated for every year (non cumulatively) without regard to losses and shall be paid within 30 days from the date of approval of the financial statements by the Company’s Board of Directors in respect of every such calendar year, and approval of their conditions by the Audit Committee and the Board of Directors as consistent with the conditions set in the above Framework Transaction. On March 25, 2007 the Audit Committee and the Board of Directors approved payment of a bonus in the amount of NIS 155 thousand to Mr. Haim Shani in respect of 2006, in accordance with the terms of the above Framework Transaction (for details, see the immediate report concerning an “Exceptional Transaction” with a “control holder” which does not require Shareholders’ approval, dated March 26, 2007). On March 13, 2008, the audit Committee and the Company's Board of Directors approved the payment of a bonus in the sum of NIS 208,000 to Mr. Haim Shani in respect of 2007, pursuant to the terms of the above Framework Transaction (for details, see the immediate report concerning an “Exceptional Transaction” with a “control holder” which does not require Shareholders’ approval , dated March 13 2008).

On March 27, 2006 the Audit Committee and the Board of Directors approved an amendment to the employment agreement between the Company and Mr. Haim Shani, pursuant to which the payment of Mr. Shani’s present salary, amounting (as detailed above) to a total gross monthly salary of $15,000, plus the Future Bonuses (hereinafter: the “**Overall Salary**”), will be divided such that a part of the Overall Salary will be paid by the subsidiary Unitronics Inc., and the remaining salary will be paid by the Company, in respect of his services as its CEO, provided that the division of the Overall Salary among the Company and Unitronics Inc. shall be carried out in a manner whereby there will be no additional salary cost to the Company (on a consolidated basis with Unitronics Inc.) as compared to the salary cost to the Company without such division. Since the above division of Mr. Shani's salary allows diversion of part of the management resources to US markets in order to contribute to development and growth of Company business activity in such markets and also allows Mr. Haim Shani to be involved with and present at subsidiary activities in a manner that does not entail additional salary costs to the Company (compared to employment of any third party in the position above), the Audit Committee and the Board of Directors have determined that the amendment may only benefit the Company.

The Company is materially dependent on the continued services of Mr. Haim Shani. The loss of Mr. Shani's services could adversely affect the Company's financial results.

(b) As of April 13, 2007, Mr. Haim Shani ceased to serve as Chairman of the Board of Directors (for additional details see the immediate report on a senior officer who ceased to serve in his position from April 15, 2007) and Mrs. Bareket Shani who serves as a director and an officer in the Company was appointed, from that time on, to serve as Chairperson of the Board of Directors. Mrs. Shani is Mr. Haim Shani's wife (for details see the Immediate Report published on April 15, 2007 concerning the appointment of a senior officer). On July 3, 2007, Mrs. Bareket Shani ceased to serve as chairperson of the Board of Directors (for details see the immediate report concerning a senior officer holder ceased to hold office published July 3, 2007) and Mr. Haim Shani, who serves as CEO of the Company, was appointed on that day to be the Chairman of the Board of Directors for a period of 3 years (for details see the immediate report concerning the appointment of a senior officer dated July 3, 2007). This resolution was approved by the general meeting of the Company's shareholders on July 3, 2007 (for details see Section 1 to the immediate report concerning the results of an annual general meeting of the Company's shareholders, which was published on July 3, 2007).

(c) The Company's Deputy CEO and Products Department Manager is entitled, under his employment agreement, in addition to fixed wages, to a bonus at a rate of 3.5% to 5% of the annual growth in sales of the Company's main PLCs (after deducting commissions of certain third parties).

(d) The Company's Chief Technology Officer (VP) provides services through a service company under his control, against management fees in a fixed amount. The management company is obligated to pay contributions for social benefits in respect of his employment and all mandatory payments under any law, and to compensate Unitronics for any loss or damage incurred by it due to a determination that employer-employee relations exist between the service provider and Unitronics. The service provider personally guarantees the service company's obligations. The Company estimates that it is not materially exposed to claims of existence of employment relations between the Company and the Chief Technology Officer (VP), based, among others, on a legal opinion obtained by the Company stating that chances are slim that any court of law would find that such employment relations exist. On February 1, 2007 an amendment to the management agreement between the Company and the Chief Technology Officer (VP) was signed, pursuant to which as of February 1, 2007 the extent of services provided by the Chief Technology Officer was reduced to 2 days a week and accordingly, the payment he is entitled to has therefore been reduced by half as of June 1, 2007. Below are details of amounts paid to the Chief Technology Officer as management fees (in NIS) for the indicated periods (no bonuses or other amounts were paid for said periods):

2007	**2006**
NIS 330,000	NIS 480,000

Company investments in training and instruction: The Company holds in-house courses for employees of the various departments, primarily in the field of safety at work. These courses are given by the security officer in the Company's facilities, as part of his position and the cost of his wages. In addition, the Company holds, as part of the international marketing activities and support for its distributors, professional courses for distributors and regional sale representatives. These courses are provided by the Company's support teams, at the facilities of the overseas distributors, and include familiarization with new developments and improvement of know-how in the operation and marketing of existing products. In the United States, regional courses are held occasionally, to which sales representatives and distributors from neighboring states are invited. The costs of such courses are included in the Company's marketing and sales expenses; the Company does not record a separate budget designated for such expenses.

1.15 Investments

As of the date of this report and in the relevant reporting periods, the Company did not have any investments in held companies, partnerships and ventures other than subsidiaries.

1.16 Financing

1.16.1 The Company's activity is financed by the Company's own equity and by external financing sources. The Company's external financing sources (in NIS thousands) are as follows (the data below also include the amounts of the special purpose loan specified in section 1.16.2 hereunder):

Credit Type	As of December 31, 2007		As of December 31, 2006		As of December 31, 2005	
	Credit amount NIS thousand	Interest	Credit amount NIS thousand	Interest	Credit amount NIS thousand	Interest
Short-term bank credit (current account)	-	-	-	-	1	9.25%
Long-term bank credit (dollars)	4,196	Libor+2.02%	5,072	Libor+2.02%	5,524	Libor+2.02%
Long-term bank credit (Euro)	5,222	Libor+2.02%	5,650	Libor+2.02%	5,528	Libor+2.02%
CPI-linked leasing loans	230	5.7%-8.5%	366	5.7%-8.5%	517	6%-11.23%
Series 2 bonds (CPI linked)	30,941	CPI+6.1%	29,859	CPI+6.1%	-	-
Convertible bonds (Dollar-linked)	24,686	**Libor + 2.5%	32,232	**Libor + 2.5%	33,908	**Libor + 2.5%
Convertible bonds (Euro-linked)	1,955	***8.13%	3,709	***8.13%	4,548	4%

** Six-month Libor, *** From May 2006

As of the date of this report, the Company has current credit facilities (excluding the credit for financing the acquisition of the Company's rights in the Company's Floors as detailed below) totaling some NIS 7.6 million, of which about NIS 62,000 have been utilized as of December 31, 2007, primarily in connection with the provision of bank guarantees to secure the Company's liabilities under agreements in the Systems sector as aforesaid. Since December 31, 2007, the Company has not taken loans in a substantial amount. In accordance with the terms of one credit facility out of these facilities from a bank in Israel (amounting to some NIS 5 million), the Company has undertaken neither to create nor to undertake to create pledges on its assets without this bank's consent, so long as this bank is due any payments on account of such credit. This credit facility is up to December 31, 2008, unless the bank agrees otherwise. Although as of the date of this report the Company is unaware of any specific limitation, there is no certainty that these credit facilities will be renewed or that the Company will be provided with substitute credit facilities, under similar terms or at all. Additionally, pursuant to the credit documents signed between the Company and part of the banks in Israel, the bank's consent is required in the event of certain changes in the Company's shareholders.

In July 2006, the Israeli Institute for Accounting Standards published Accounting Standard No. 29 "Adoption of International Financial Reporting Standards (IFRS)" (Hereinafter: the "**Standard**"). Pursuant to the Standard, the Company is required to include in a note to the annual financial statements as of December 31, 2007, the balance sheet data as of December 31, 2007 and the income statement data for the year then ended, once the recognition, measurement and presentation rules of the IFRS have been applied thereto.

The impact of transition to reporting under IFRS on fixed asset items is described in section 2.000 in the Board of Directors' Report, and set forth in note 31 to the Company's financial statements.

1.16.2 The acquisition of the Company's rights in the Company's Floors in the Unitronics House was financed primarily through a credit facility totaling NIS 13,735 thousand provided to the Company by the Industrial Development Bank of Israel Ltd. (hereinafter: the "**Industrial Development Bank**"), in accordance with the financing terms agreed between the parties on July 12, 2000.

On December 29, 2005, the Company fully repaid the remaining debt balance of the loan extended to it in 2000 by the Industrial Development Bank, in the total amount (as of the above due date) of NIS 11,000,000 (eleven million shekels) (hereinafter: the **"Previous Credit Facility"**). This payment was made using two new loans provided to the Company by Bank Leumi LeYisrael Ltd. (hereinafter: "**Bank Leumi"**) on December 29, 2005 (a loan totaling €1,015,000 and a loan totaling USD 1,200,000; hereinafter: the **"New Credit Facility"**).

Under the terms of the New Credit Facility from Bank Leumi, the repayment of the loans will be spread over a period of 12 years from the date of the loan for the entire amount (as compared to the Previous Credit Facility, for which half the amount was due for payment in July 2006, and the remainder for payment within 10 years), plus interest at the rate of Libor + 2.02% (as compared to Libor + approx. 2.50% under the Previous Credit Facility).
The remaining debt payable to Bank Leumi as of December 31, 2007 for the New Credit Facility is about NIS 9,418,000.

1.16.3 In the framework of financing of the purchase of the Company's Floors, on August 22, 2000 the Company pledged, in favor of the Industrial Development Bank, by a first degree fixed and floating charge, its rights in the Unitronics House, documentary instruments and securities deposited and/or to be deposited at the Industrial Development Bank, as well as rights to guarantee funds, pursuant to the Sale Law (Apartments) (Securing Investments of Apartment Purchasers), 5735-1974.

On December 28, 2005, the pledges registered in favor of the Industrial Development Bank as aforesaid, to secure repayment of the debt under the Previous Credit Facility were cancelled. Concurrently with the cancellation of the above pledges, Bank Leumi is attending to register a new pledge in favor of Bank Leumi under similar conditions as those of the cancelled pledge, in order secure repayment of the debt under the New Credit Facility. On February 12, 2008, the Company's Board of Directors approved the signing of a deed of pledge, a power of attorney in favor of Bank Leumi and Airport City, and irrevocable orders to the Israel Land Administration, all for the purpose of registering a lease right in the Company's name and registering the new pledge as aforesaid.

The trustee for holders of the Bonds (Series 1) issued by the Company under the 2004 Prospectus (see Section 1.19.4 below) has given his consent to the above changes in collateral provided by the Company for securing repayment of the New Credit Facility.

1.17 Taxation

1.17.1 Tax benefits under the Encouragement of Capital Investments Law, 5719-1959 (in this section: the "**Law**"): The Company is entitled to various tax benefits under the Law by virtue of its status as an "Approved Enterprise", as follows:

(a) In June 2000 the Company received approval for an investment plan under an alternative benefits program from the Investments Center, the essence of which is an investment totaling $108,000 for expansion of the Company's plant for production of PLCs, subject to the terms of the approval (in summary, at least 30% of the investments in fixed assets to be financed by additional paid-up share capital, implementation of a marketing plan detailed in the Company's letter, including maintenance of sales volumes under the same plan, compliance with intellectual property laws and submission of reports to the Investments Center and to the tax assessing officer as required by law). In December 2001, the Company received approval for a supplement to this plan in the sum of $257,000, such that investments in the plan would total approx. $ 365,000. The date for implementation of the plan was June 2002, and was extended to September 2002. A final execution report was submitted in April 2003. In February 2004, the Company received a confirmation to implement the plan, certifying that it had complied with the plan's terms, except for the marketing terms during the years 2001-2003. The Company estimates that, by the time the benefit under the plan becomes relevant, it will also meet the terms of the marketing plan.

(b) In January 2003 the Company received approval for another investment plan under an alternative benefits program, the essence of which is an investment in the amount of $683,600 for expansion of the Company's plant for production of PLCs, subject to compliance with the terms of the approval (in summary, at least 30% of the investments in fixed assets to be financed by additional paid-up share capital, compliance with intellectual property laws and submission of reports to the Investments Center and to the tax assessing officer as required by law). The approved date for implementation of the plan is up to January 2005. In August 2005, the Company submitted a final execution report for this plan. According to the report, the requested year of operation (the base year for the benefits period) is 2004, and the Company reported that it had implemented by the end of 2004 cumulatively, the entire actual investments program (approx. 99%), of a total of approx. NIS 1,257 thousand, in manufacturing equipment only. The Company further reported that during 2004 it had increased its revenues by approx. NIS 20 million as compared to 2003 (a growth rate of approx. 38%, according to VAT reports). In September 2005, following an audit made at the Company, the Company received confirmation from the Engineering Department regarding the execution of investments during the period; In March 2006 the Company received approval of execution of the approved plan in the alternative track, whereby it had complied with the program terms except for marketing terms in 2004. The Company estimates that, by the time the benefit under the plan becomes relevant, it will also meet the terms of the marketing plan.

(c) The base year for the benefits period under the first plan is 1999 and for the second plan it is 2004. As of the date of the report, the benefits under either the first or the second plans have not yet been utilized.

Subject to the aforesaid, as of the date of this report, the Company has met its liabilities to the Investment Center.

(d) The benefits to the Company under the Law are primarily a reduced tax rate: during the benefits period (7 years from the year in which the Company first has taxable income from the Approved Enterprise), the Company's income from the Approved Enterprise is exempt from corporate tax for the first two years and subsequently, its income from the Approved Enterprise will be subject to corporate tax at a rate of 25% (or less, according to the rate of foreign holdings in its shares), provided that 14 years have not elapsed since the issue of the letter of approval or 12 years have not elapsed since the year of operation, whichever is earlier. Tax benefits will apply to incremental sales relative to the turnover in the base year. Dividends paid within the benefit period out of funds attributed to the Approved Enterprise are subject to a reduced tax rate of 15%. In cases where a cash dividend is paid out of Company revenues arising from the approved plan for which the Company was entitled to a 0% tax rate, the Company shall be subject to corporate tax at a rate of 25% of dividends paid.

1.17.2 <u>Measuring results for tax purposes according to Israeli Internal Revenue Ordinance (Adjustments for Inflation), 5745-1985</u> (in this section: the **"Adjustment Law**"): The Company is assessed under the Adjustments Law, according to which the results are measured for tax purposes on a real basis, taking into account the rise in the index. In 2007, a law proposal was published for the cancellation of the provisions of the Income Tax (Adjustments for Inflation) Law, 1985, beginning from the 2008 tax year. Pursuant to the proposal, most of the provisions of the Law will be cancelled, with certain clauses remaining in effect as transition provisions, maintaining the re-evaluation mechanism pursuant to the Adjustment Law in effect until the end of 2007.

1.17.3 <u>The Industrial Promotion Law (Taxes), 5729-1969:</u> The Company is an "industrial Company" as the term is defined in the above law. By virtue thereof, the Company is entitled to tax benefits such as the deduction of issue expenses for tax purposes when listing shares on the stock exchange and the deduction of patents and knowledge acquired from third parties. The subsidiary, Unitronics Inc., is subject to taxation under US tax laws and is therefore not eligible for benefits under the Industrial Promotion Law (Taxes), 5729-1969. The subsidiary is subject to federal tax at a rate of 35%; the state tax imposed on the subsidiary (in the state of Massachusetts) is at a rate of 9.5%.

1.17.4 <u>Tax rates on income not derived from the "Approved Enterprise":</u> Company revenues not derived from the Approved Enterprise as aforesaid, and revenues of the subsidiary, Unitronics Management, are subject to tax at the ordinary rate of 29% (2008 - 27%, 2009 - 26%, , 2010 and thereafter - 25%).

1.17.5 <u>Tax Assessments:</u> The Company has tax assessments which are considered final up to and including the tax year 2003. No final tax assessments have been issued yet for the subsidiaries Unitronics Management and Unitronics Inc. since the date of their incorporation.

1.17.6 Carry forward losses: The balance of the Company's carry forward losses for tax purposes as of December 31, 2007 amount to about NIS 19,000 thousand. No deferred taxes have been recognized in respect of these losses.

1.18 Limitations on and supervision of Company activities

1.18.1 Business license: Company operations at Unitronics House in Airport City are subject to obtaining a business license under the Business Licensing Law, 5728-1968. In June 2004 the Company received a business license for its plant at Airport City from the Business Licensing Department at the *Hevel Modi'in* Regional Council.

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

1.18.3 Ministry of Defense: the Company is a recognized supplier to the Israeli Ministry of Defense for the manufacture, marketing and service provision in the automated warehouse sector, as of November 25, 2002.

1.19 Material agreements and cooperation agreements

1.19.1 The agreements listed above: The agreements listed in sections 1.4.1, 1.4.6, 1.9.12.3, 1.10.9 and 1.14.4 above are material agreements of the Company. In addition, the agreements detailed in section 1.19.1 are material agreements of the Company.

1.19.2 Acquisition of Company rights in Company Floors at Unitronics House and its financing: On July 23, 2000 the Company entered into an agreement concerning the purchase of rights in certain floors in the Unitronics House, as detailed in section 1.12.1 above, under the financing terms specified in sections 1.16.2 and 1.16.3 above.

1.19.3 Underwriting agreement (2004 Prospectus): The Company entered into an underwriting agreement on May 11, 2004, regarding the securities offered by the Company under the 2004 Prospectus. The underwriting agreement formalized the underwriters' obligations with respect to the distribution and underwriting of the securities and their commissions (and expense reimbursement), which totaled approx. NIS 4,172 thousand. Pursuant to the agreement, the Company has undertaken to indemnify the underwriters for any amount they may be charged under a court ruling or settlement to which the Company has agreed (and the expenses thereof), due to the inclusion of a misleading detail in the prospectus, including anything likely to mislead a reasonable investor or due to the deficiency of any detail in the prospectus that is likely to be important to a reasonable investor, or as a result of any claim the grounds for which arise or derive from the prospectus, save information provided to the Company in writing by an underwriter to be used for the preparation of the prospectus.

1.19.4 Bonds (Series 1): The Company issued under the 2004 Prospectus NIS 35,000,000 par value bonds (series 1), registered in the holder's name, of NIS 0.02 par value each of the

Company, payable (principal) in 4 equal annual installments on May 23 of each of the years 2007 through 2010, linked (principal and interest) to the representative rate of the US dollar (of not less than NIS4.59 per dollar) and bearing interest at a variable rate of LIBOR (for a period of 6 months) + 2.5% per annum. The bonds are convertible into Ordinary Shares on any trading day up to May 9, 2010 (inclusive), save from the 10th to the 23rd of May of each of the years 2007 to 2009, such that any non-paid-up NIS 9.00 par value bonds (Series 1) are convertible into one Ordinary Share of the Company (subject to adjustments). The bonds (Series 1) were issued under the 2004 Prospectus at 95% of the par value thereof.

On May 12, 2004 the Company contracted with Deloitte Touche (Israel) Brightman Almagor Trusts Ltd. (hereinafter – the **"Trustee"**), as trustee for the bonds offered under the 2004 Prospectus. The trust deed includes provisions as to the Company's refraining from creating additional charges on its assets beyond the existing ones without the trustee's consent, the trustee's authority concerning waiver, settlement, amendments to the trust deed, declaring the bonds immediately due and payable, convening meetings of bondholders, and concerning the proceedings at meetings of bondholders, voting at such meetings, indemnification of the trustee, replacing the trustee and expiry of the trustee's office.

On May 24, 2007, the Company published an immediate report stating that the trustee informed the Company that during a sample routine examination conducted by him, concerning the issue of method of calculating of interest of the bonds, he believes that the interest should be calculated, not as the Company had been calculating it (effective interest) (the **"Old Calculation"**), but on the basis of a nominal interest.

Although the Company believes that until to the publication of the report, its interpretation of the method of interest calculation was reasonable, and taking into consideration the fact that adopting the Trustee's positions does not have a material financial effect on the Company, the Company decided to adopt the Trustee's position, change the method of interest calculation in a manner benefiting the bondholders, and calculate it on a nominal basis at an annually changing rate of LIBOR Interest (as defined in the 2004 Prospectus) plus 2.5% per annum. The interest will be linked to the US dollar.

Therefore, starting from May 24, 2007, the interest in respect of this bond has been calculated according to the new method, as aforesaid, including in respect of the period commencing on May 23, 2007.

For past periods, for which interest payments have already been made according to the Old Calculation, the Company is holding discussions and consultations with the relevant entities, including the Trustee, in order to reach an agreed arrangement for payment of differences to the bondholders in respect of periods prior to the above change and in connection therewith, if at all.

Pursuant to the terms of the bond, the Company is required to pay in each defined period, a LIBOR interest, which is defined as a changing interest equal to the London Interbank Offered Rate (LIBOR) – on US dollar deposits for a six (6)-month period in the London

Interbank Market for Prime Banks, as quoted in the Telerate Page 3750 (hereinafter: the "**Source**"). The interest rate for each period is determined on the first day of each period.

At the beginning of each period, at the TASE's request and although it is not required under the prospectus, the Company publishes the interest rate. From time to time, on the first day of the period in which the Company is required to publish the interest, the LIBOR interest rate quoted in the Source may not be up to date for that day, but only for several days earlier, and therefore only the interest from the out-of-date publication can be quoted. On such occasions, the Source quotes the updated interest rate for that first day only a few days later than the first day of the period (hereinafter: the "**Later Date**").

In coordination with the Trustee and the Tel-Aviv Stock Exchange Ltd, the Company issues an immediate report concerning the interest rate on the first day of each period, and adds a statement to this report that "the published rate is known to the Company today, while the accurate quote from the Source may be updated in the next few days, and the Company will publish an amending report if any change occurs". If at the later date an updated interest rate is published, the Company publishes an immediate report revising the updated interest for the first day of that period, as quoted by the Source, at the later date, while emphasizing that this report revises the interest rate for the period as published in the immediate report published in the beginning of the period.

1.19.5 Bonds (Series 2): A series of NIS 34,000,000 par value bonds (Series 2), registered in the holder's name, of NIS 0.02 par value each of the Company, bearing interest at 6.1% per annum, linked (principal and interest) to the Consumer Price Index and payable (principal) in 5 equal annual installments on August 25 of each of the years 2009 to 2013 (inclusive). The bonds (Series 2) were issued under the 2006 Prospectus at 94% of their par value.

On August 15, 2006 the Company contracted with Hermetic Trusts (1975) Ltd., as trustee for the bonds (Series 2) offered under the 2006 Prospectus. The trust deed includes provisions as to the Company's refraining from creating additional charges on its assets beyond the existing ones without the trustee's consent, the trustee's authority concerning waiver, settlement, amendments to the trust deed, declaring the bonds immediately due and payable, convening meetings of bondholders, and concerning the proceedings at meetings of bondholders, voting at such meetings, indemnification of the trustee, replacing the trustee and expiry of the trustee's office.

1.19.6 Underwriting agreement (2006 Prospectus): The Company entered into an underwriting agreement on August 15, 2006, regarding the securities offered by the Company under the 2006 Prospectus. The underwriting agreement formalized the underwriters' obligations with respect to the distribution and underwriting of the securities and their commissions (and expense reimbursement), which totaled approx. NIS 1,262 thousand.
Under the agreement, the Company has undertaken to indemnify the underwriters for any amount they may be charged under a judgment; or settlement to which the Company has agreed (and the expenses thereof), due to the inclusion of a misleading detail in the prospectus; or due to the deficiency of any detail in the prospectus; or as a result of any claim the grounds for which arise or derive from the prospectus, save information provided to the Company in writing by an underwriter to be used for the preparation of the 2006 Prospectus, linked to the Consumer Price Index with the base CPI value being

the CPI value known on the date of the underwriting agreement, provided the indemnified amount shall not exceed 25% of the Company’s working capital at the time, based on the Company’s most recent audited financial statements.

1.20 Legal Proceedings

1.20.1 Dispute with IMO

Unitronics has become involved in a dispute with IMO Jeambrun Automation SAS (hereinafter: **“IMO”**) in France, which in August 2004, acquired the business of Unitronics’ exclusive distributor in France, after the latter was declared insolvent.

Discussions were held between the parties to this dispute, for settling the dispute by way of conciliation. The essence of the conciliation: all parties are to waive all their claims including IMO's claims against the new Unitronics distributor in France. In light of the parties' agreements, the Court in Israel decided, on February 25, 2007 and on March 1, 2007, to dismiss all the aforementioned claims. Concurrently, requests have been filed with a court in France to bring the proceedings there to an end. On September 14, 2007, the court in France ruled to dismiss the claims of both parties and cancel the proceeding. After receiving an immaterial settlement amount from IMO, all the proceedings were terminated.

1.20.2 Dispute with Samy Gharb

In January 2006 the Company through counsel in the United States filed a claim in the US court against a private individual who approached the Company and several distributors of the Company in the United States and in Europe with claims that by marketing the Company’s products they are infringing a registered patent of his. In this claim Unitronics petitioned the court to declare that the defendant’s registered patent in the United States invalid and that Unitronics’ actions do not infringe the defendant’s intellectual property rights. Unitronics in addition claimed from the defendant a sum of not less than US$ 1 million in respect of damages incurred due to the defendant’s actions, chiefly his applications to Unitronics’ distributors in the United States. 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. In light of this fact and despite the Company’s request that the court rule in its favor (in the absence of defense) – the court decided to continue with the proceedings. 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 a letter in German to the court. On December 22, 2006, the court ruled 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’ claims.

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

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

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

1.20.3 Dispute with Robotic Parking

On December 28, 2006, Robotic Parking (hereinafter: "**Robotic**”) filed an amended claim (further to the original claim from June 2006) against the City of Hoboken, New Jersey in the USA concerning the operation of an automated parking system built several years before by Robotic. The amended claim added Unitronics and Unitronics Inc. as additional defendants, *inter alia*, in respect of the violation of patents and intellectual property rights, breach of contract and slander. Under the terms of a contract between the Company and the Municipality of the City of Hoboken, the Municipality committed to indemnify Unitronics for any damages caused by lawsuits filed by Robotic.

This dispute was resolved by way of a settlement, which in principal stated that the parties mutually cancel any existing and/or future claims and allegations in connection with the dispute in these proceedings, without any compensation. The settlement agreement was signed by the parties on July 17, 2007, and was upheld by a US court on July 20, 2007.

1.21 Subsidiaries

1.21.1 Unitronics House Management and Maintenance (2003) Ltd.

1.21.1.1 Overview

Unitronics House Management and Maintenance (2003) Ltd. (“**Unitronics Management**”) was incorporated on April 29, 2003 as a wholly-owned subsidiary of the Company.

Unitronics Management has been involved, since March 2004, primarily in providing maintenance and similar services in conjunction with use of Unitronics House (which is leased in part by Unitronics, and in part by interested parties in Unitronics as per section 1.12 in this report). As per the resolution of the Company's Audit Committee and board of directors on May 2003, Unitronics Management provides maintenance services for the remainder of Unitronics House as well, which are not used or leased by the Company, provided that: (a) Unitronics Management will offer the same terms to all tenants at Unitronics House as those provided by other management companies in the area; and (b) the impact of provision of such services on Unitronics' profits, assets or liabilities will remain non-material. By decision of Unitronics' board of directors, any deviation from the above decisions will require approval by Unitronics' board of directors, as well as any other approval required by law.

Unitronics Management operates from Unitronics House with no offices, assets or employees of its own. Unitronics Management operates via Unitronics' managers and staff, using Unitronics' assets with all building tenants paying for the Company's services based on charge rates which apply equally to all, and payment is pro-rated to the area used by each tenant. For details of services provided by Unitronics Management and fees charged by it (which are in non-material amounts for the Company), see sections 1.11 and 4.4 in this report.

1.21.1.2 Issued and paid-up capital, Company's share

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

1.21.1.3 The cost of Unitronics Management shares to the Company and their price as recorded in its books

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

1.21.1.4 Loans, credit, guarantees, investments in the Company

As of the date of this report, Unitronics Management has no debt to the Company, and the Company has issued no guarantees for Unitronics Management, except for current debt in the ordinary course of business and at immaterial amounts.

Also, as of the date of this report, the Company has made no investments in Unitronics Management.

1.21.1.5 Holders of 25% or more of the equity

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

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

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

1.21.1.7 Directors and senior office holders at Unitronics Management

The directors of Unitronics Management are: Messrs. Haim Shani, Bareket Shani and Zvi Livne, who are all incumbent directors of the Company as well.

Unitronics Management has no appointed CEO; Mr. Haim Shani, who is also the Company's CEO and chairman of the board of directors, is the incumbent senior officer of Unitronics Management.

1.21.1.8 Profits / (losses) of Unitronics Management

As of December 31, 2007 the cumulative loss of Unitronics Management is about NIS 56,000.

1.21.2 **Unitronics Inc.**

1.21.2.1 Overview

Unitronics Inc. was incorporated on June 25, 2001 as a wholly-owned subsidiary of the Company.

Unitronics Inc. is primarily engaged in marketing and distribution activities for the Company in the USA, operating a network of about 80 distributors across most of the United States. Unitronics Inc.'s offices are near Boston, MA in the USA. It has five employees, engaged primarily in coordination and support of marketing activities by Company distributors in the USA.

1.21.2.2 Issued and paid-up capital, the Company's share

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

1.21.2.3 The cost of Unitronics Inc's shares and their recorded price in its books

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

1.21.2.4 Loans, credit, guarantees, investments in the Company

The negative working capital of Unitronics Inc. is, as of December 31, 2007 approximately NIS 5,905,000. The current debt owed by Unitronics Inc. to the Company amounted to NIS 17,188,000 as of December 31, 2007.

1.21.2.5 Holders of 25% or more of capital

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

1.21.2.6 Management fees, interest, dividend and other payments from Unitronics Inc.

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

1.21.2.7 Directors and senior office holders at Unitronics Inc.

Haim Shani serves as the single director and president of Unitronics Inc. For details on the division of Mr. Shani's salary between the Company and Unitronics Inc., see section 4.7.2 of this report.

1.21.3 **<u>Profit (Loss) before and after tax, dividend, management fees and interest income from subsidiaries</u>**

	For the year ended December 31, 2007		**For the year ended December 31, 2006**		**For the year ended December 31, 2005**	
	Unitronics House Management and Maintenance (2003) Ltd.	Unitronics Inc.	Unitronics House Management and Maintenance (2003) Ltd.	Unitronics Inc.	Unitronics House Management and Maintenance (2003) Ltd.	Unitronics Inc.
In NIS thousands						
Profit (Loss) Before Tax	(111)	(1,916)	(25)	(781)	7	(1,239)
Profit (Loss) After Tax	(111)	(1,916)	(25)	(781)	5	(1,239)
Dividend	0	0	0	0	0	0
Management Fees	0	0	0	0	0	0
Interest Income	0	0	0	0	0	0

6.21.4 <u>Inactive subsidiaries:</u>

In addition, the Company holds 100% of the issued capital of Unitronics Industrie Automation GmbH, incorporated in Germany, as well as 30% of the issued capital of Unitronics S.A. (Proprietary) Limited, incorporated in South Africa. These companies have been inactive for several years and have no assets, employees nor liabilities (for details see section 1.2 above).

1.22 <u>Discussion of risk factors</u>

Listed below are risk factors that impact the Company (in both the products and systems sectors) and Company management’s estimate of the degree to which they impact the Company's business:

Type of Risk	Nature of Risk	Evaluation of extent of impact on the Company
Macro Risks	*Exposure to volatility in the markets:* The Company is exposed to changes in general factors affecting the main markets in which it operates, such as the slowdown in business activity in Israel and worldwide and the effects of security-related events in Israel and globally.	High
	Exposure to interest risks: The Company is exposed to changes in prime and LIBOR interest rates in connection with various loans as detailed in sections 1.16 and 1.19.4 above.	High
	Currency exposure: The Company is exposed to changes in the exchange rates of the US$ and the Euro. See section 2.3	Medium
	Exposure to investment in negotiable securities: The Company is exposed to changes in the prices of securities in which a material portion of its financial means is invested. See section 2.3	Medium
	Exposure to strikes at Israel's ports: Strikes at Israel's sea and/or airports could delay imports of raw materials used by the Company (including components of logistics systems) and/or exports of the Company's products overseas, thereby compromising delivery dates to which the Company has committed, which in turn can entail expenses and/or harm the Company's reputation.	Low
Sector Risks	*Competition**:*** The Company is exposed to competition from entities with resources and reputation that surpass those of the Company, as detailed in sections 1.9.7 and 1.9.14 above (with regard to the products sector) and in sections 1.10.7.2 and 1.10.12 (with regard to the systems sector).	High
	Development of new technologies and/or products: The Company is exposed to risks related to development of new products and/or technologies whose successful development and/or marketing are uncertain, as detailed in section 1.9.10 above.	Medium
	Regulatory Requirements: The Company is exposed to risks arising from noncompliance of its products or services with specific regulatory requirements, as detailed in sections 1.9.22, 1.9.23 and 1.10.19 above.	Medium
	RoHS and WEEE Directives: The Company is exposed to risks arising from potential noncompliance of its products or services with the requirements of the European directives, as detailed in sections 1.9.22 and 1.9.23 above.	Low
	Raw materials: The Company is exposed to risks arising from possible temporary worldwide shortages in electronic components and from limited allocations of components (allocations and conformity with the RoHS directive) by component manufacturers in certain cases of surplus demand, as detailed in sections 1.9.20 and 1.9.22 above.	Low
Company-specific Risks	*Principal customers:* Material parts of the Company's revenues originate from a limited number of principal customers that enter into material transactions of a onetime nature with the Company, as detailed in sections 1.9.12.3 and 1.10.9 above.	Medium
	Dependency on the Israeli market: The Company's activity in the Systems sector is dependent on the Israeli market, which tends to be affected by the aforesaid macro and sector risks more than markets overseas, and in which the demand for projects is lower than the demand in corresponding markets overseas.	Medium
	Dependency on founder and controlling shareholder: The Company is materially dependant upon the continued services of Mr. Haim Shani, as detailed in section 1.14.4A above.	Medium

	*Leverag*e: The Company has liabilities in respect of the repayment of loans due, among others, to the issue of bonds (Series 1) under the 2004 Prospectus and in respect of a loan for the acquisition of Unitronics floors (as described in section 1.16.2). After the issue of bonds (Series 2) under the 2006 Prospectus, the Company's liabilities in respect of external loans have increased to a total of about NIS 67 million. Should the Company fail in the investment of said loan funds, there is a concern that the Company might not be able to fulfill the terms of repayment of the aforementioned loans. Furthermore, there is no certainty that the use of loan funds (for the development of Company business) will produce the desired results and will allow for compliance with the terms of loan repayment in the future.	Medium
	Unregistered intellectual property rights: The Company maintains intellectual property which is not registered (although the Company also has registered certain intellectual property rights). The Company is exposed to risks that stem from the non-registration of such intellectual property rights, in respect of which applications were submitted but not yet executed (for details see sections 1.9.10.1, 1.13.2 and 1.13.3) and from intellectual properties that have not been submitted for registration.	Low
	Low share prices and trading volumes: The Company’s shares are traded on the stock exchange in Belgium at prices significantly lower than the price offered to the public in 1999 (€ 3.72), and on the Tel Aviv Stock Exchange at prices lower than the price offered to the public in May 2004 (NIS 7.55 per share). There is no certainty that the price of the Company’s shares on the stock exchange will not continue to decline. Furthermore, the trading volumes in the Company’s shares on the stock exchanges in Belgium and in Tel Aviv are usually low and dissimilar, which has an adverse effect on their tradability.	Low
	Absence of arbitrage on the stock exchanges in Israel and Belgium: Although the Company’s shares are traded on the EuroNext Stock Exchange in Belgium and on the Tel Aviv Stock Exchange, at this stage there can be no parallel trading in the Company’s shares on these two stock exchanges in real time. In these circumstances, gaps arise from time to time in the share prices on these stock exchanges. There is no certainty that these gaps will diminish. Such gaps are liable to cause damage to investors in the Company’s securities, as well as to the Company itself in certain circumstances.	Low

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

2.1 Summary of quarterly income statements (Reg. 10A)

	NIS in thousands				
	1-3/2007	4-6/2007	7-9/2007	10-12/2007	1-12/2007
Revenues	27,632	27,891	24,021	22,809	102,353
Cost of sales	19,429	21,311	16,413	13,634	70,787
Gross profit	8,203	6,580	7,608	9,175	31,566
R&D expenses, Net	465	336	407	354	1,562
Sales and marketing expenses	3,092	3,533	3,169	3,708	13,502
General and administrative expenses	1,742	1,596	1,701	1,643	6,682
Profit from ordinary operations	2,904	1,115	2,331	3,470	9,820
Financial expenses	1,504	737	3,171	1,634	7,046
Other revenues	0	0	0	0	0
Profit (loss) before taxes	1,400	378	(840)	1,836	2,774
Income taxes (tax benefit)	0	0	0	0	0
Profit (loss) for the period	1,400	378	(840)	1,836	2,774

2.2 Explanations to the Financial Statements (Reg. 10)

2.2.1 General

The Company engages, via the Products Department, in the design, development, manufacture, marketing and sale of industrial automation products, mainly PLCs, and via the Systems Department, in design, construction and maintenance services within the framework of projects for automation, computerization and integration of computerized production and/or logistics systems, mainly automated warehouses, automatic parking systems, and distribution centers. The Company's PLCs are being distributed through over one hundred and forty distributors (and a wholly-owned subsidiary) in approximately fifty countries throughout Europe, Asia, America and Africa, and the services of the Systems Department were provided until recently mainly to customers in Israel, and in a few cases, also outside of Israel. Starting last year and concurrently with the Company’s activity in Israel in the Systems sector, the Company is examining possibilities for strategic collaborations outside of Israel (in the first stage primarily in the USA), with the goal of developing additional markets for the services of the Systems Department.

2.2.2 Main Events during the report period and in the period prior to its publication

Allotment of options; expiry of options

On April 12, 2007 the Board of Directors of the Company approved a private allotment of non-negotiable options to Mr. Jonathan Roman, a former employee of the Company, who serves as an external advisor and service provider to the Company (for details see section 1.4.7 above).

Changes in the Board of Directors

As of April 13, 2007, the CEO of the Company Mr. Haim Shani ceased to serve as Chairman of the Board of Directors and Mrs. Bareket Shani who serves as a director and an officer in the Company was appointed, on the same date, to be the Chairperson of the Board of Directors. On July 3, 2007, Mrs. Bareket Shani ceased to serve as chairperson of the Board of Directors and Mr. Haim Shani, who serves as CEO of the Company, was appointed on that day to be the Chairman of the Board of Directors for a period of 3 years. This resolution was approved in the general meeting of the Company's shareholders on July 3, 2007 (for details see section 1.14.4 above).

Payment for bonds (Series 1) and other bonds

On May 24, 2007, the Company executed the first payment of four in respect of the principal amount of the bond (Series 1), pursuant to the 2004 Prospectus. On November 23, 2007, the Company performed an interest payment in respect of this bond (for details see section 1.4.9 above). Until February 7, 2008, the Company paid 8 out of 10 interest and principal payments in respect of the bonds denominated in Euro (for details see section 1.4.1 above).

Change of method of calculation of interest for bonds (Series 1)

On May 24, 2007 the Company published an immediate report stating that Deloitte Touche (Israel) Brightman Almagor Trustees Ltd. (hereinafter – the "**Trustee**"), who serves as trustee for the bonds (Series 1) issued by the Company under the 2004 Prospectus (the **"Bonds**"), had informed the Company that after conducting a routine sample examination of the method of calculation of the bond interest, he believes that the interest rate should be calculated, not as the Company had been calculating it (effective interest) (the **"Previous Calculation"**), but on the basis of a nominal interest.

The Company decided to adopt the Trustee's position, change the method of interest calculation such that the interpretation benefits the bondholders, and calculate it on a nominal basis at an annually changing rate of LIBOR Interest (as defined in the 2004 Prospectus) plus 2.5% per annum. The interest will be linked to the US dollar.

In addition, at the beginning of each period, the Company publishes the interest rate, which it is expected to pay for the bond, and on a later date, publishes an updated interest if the quoted source is updated (for details see section 1.19.4 above).

Buybacks of company shares

Commencing August 2005, the Company, from time to time, has been buying back Ordinary Shares of the Company, within the framework of trading on the Tel Aviv Stock Exchange and on the EuroNext Stock Exchange in Belgium. As of the reporting date, the Company holds a total of 612,969 shares that were purchased as aforementioned (out of 11,676,546 Ordinary Shares in the Company's issued share capital). (For details see section 1.4.3 above).

Decisions concerning the External Director, Mr. Moshe Bra'az

The General Meeting of the Company's shareholders held on July 3, 2007, approved the resolutions of the Board of Directors from March 25, 2007, concerning Mr. Moshe Baraz, an external director of the Company, in the matter of indemnification, in accordance with the indemnity provisions as specified in the Articles of Association of the Company and the inclusion of Mr. Baraz in the insurance coverage of directors and officers of the Company, as well as approval of an annual bonus and participation bonus (for details see the amended report dated March 31, 2007, to the immediate report concerning the grant of an indemnity letter to an "office holder dated March 26, 2007, , and sections 2 and 3 of the Immediate Report on the results of the meeting, published on July 3, 2007).

2.2.3 Financial status

Commencing on January 1, 2007, the Company has been implementing Accounting Standard No. 30 concerning intangible assets (hereinafter - Standard 30) of the Israeli Institute of Accounting Standards. The Standard explains the accounting treatment of intangible assets, and defines how to measure the their value, while specifying the disclosure requirements in respect thereof, in accordance with the transition provisions of the Standard.

The adoption of the Standard shall be carried out retroactively, except as specified hereafter; in the matter of business combinations, the Standard will only be implemented regarding business joining which occurred on January 1, 2007 or thereafter, while with respect to a research and development project in process that was acquired in the framework of a business joining that occurred before January 1, 2007, and that meets the definition of an intangible asset at the time of the purchase and that was recorded as an expense at the acquisition date, the Company shall recognize the asset, on January 1, 2007, as a research and development project in process while allocating taxes accordingly. The Standard stipulates that an intangible asset shall be recognized if, and only if, it is probable that the projected future economic benefits attributable to the asset will flow into the entity and if the cost of the asset can be reliably measured.

A research and development asset shall be recognized on the basis of its estimated value at the time of purchase after offsetting the depreciation that would have been accumulated if the asset had been depreciated from the time of the purchase and until December 31, 2006, in accordance with the useful life expectancy of the asset less the accumulated impairment losses. The resulting adjustment will be credited to retained earnings as of January 1, 2007.

As aforesaid, as of January 1, 2007, the Company has been implementing the provisions of Standard 30 with respect to the development costs that meet the definition of an intangible asset. For additional details on the Standard and its implementation see note 2L in section C (the financial statements).

<u>Assets</u>

The total assets balance according to the Company's consolidated balance sheet of December 31, 2007 amounted to approximately NIS 113,253,000 as compared to NIS 123,502,000 as of December 31, 2006. This decrease primarily stemmed from the decline in cash, cash equivalents and in the trade receivable and inventory, after deducting the increase in other assets, as specified below.

The balance of cash, cash equivalents and marketable securities item, there was a decrease from approximately NIS 70,296,000 as of December 31, 2006, to approximately NIS 54,702,000 as of December 31, 2007. This decrease primarily stemmed from the repayment of convertible bonds (Series 1) and the repayment of convertible bonds stated in Euro, which the Company made during 2007.

The balance of accounts receivable, there was a decrease from approximately NIS 15,675,000 as of December 31, 2006 to approximately NIS 14,484,000 as of December 31, 2007, mostly of derived from a decline in income receivable in the Systems sector.

The Inventory item recorded an approximately 5% decrease, and amounted to NIS 12,981 thousand as of December 31, 2007 - compared to NIS 13,663 thousand as of December 31, 2006, The Company believes that this improvement is mainly attributable to a consistent improvement in the procurement and inventory management processes. The Company holds, on a regular basis, approximately 60 - 100 days' worth of inventory of components and raw materials, which are intended for the forecasted requirements for a period of approximately two months. In addition, the Company holds finished product inventory intended to enable the supply of current orders for approximately 45-75 days. For further details with regard to raw materials, suppliers and inventory, see Chapter A (section 1.9.21.1) above.

The balance of fixed assets as of December 31, 2007, was approximately NIS 22,217,000 compared to NIS 22,019,000 on December 31, 2006. This stability primarily stems from investment in current operations of the Company after offsetting depreciation in the reported period. For additional details on fixed assets see Chapter A (section 1.19) above.

The balance of other assets and net deferred expenses as of December 31, 2007, amounted to approximately NIS 8,415,000, compared to NIS 750,000 as of December 31, 2006. The increase derives mainly from the recognition of development assets of the Company, following the implementation of Standard 30, as explained above.

Liabilities

Total short-term credit amounted to approximately NIS 11,775,000 as of December 31, 2007, as compared to NIS 11,720,000 as of December 31, 2006. Most of the amount stems from current maturity of convertible bonds (Series 1) whose repayment shall commence in May 2008, current maturities of convertible bonds stated in Euro, whose repayment commenced in May 2006 and will continue until September 2008, and current maturities of long term loans.

The Accounts Payable to suppliers and service providers did not change significantly and as of December 31, 2007 amounted to NIS 12,630,000, compared to NIS 12,112,000 as of December 31, 2006.

The balance of accounts payable and accruals amounted to NIS 7,856,000 as of December 31, 2007, compared to NIS 11,444,000 as of December 31, 2006. The decrease in this item mainly stems from the decrease in the accrued expenses element net of the increase in advances from customers.

Total long- term liabilities as of December 31, 2007, amounted to NIS 57,001,000 compared to NIS 66,796,000 as of December 31, 2006. Most of the change in this item stems from the repayment of 25% of the principal of the convertible bonds (Series 1) in the sum of NIS 8,750,000 in May 2007 and the repayment of convertible bonds stated in Euro during 2007.

The Company's working capital amounted to approximately NIS 49,916,000 as of December 31, 2007, compared to NIS 65,118,000 as of December 31, 2006. Most of the decrease stems from the partial repayment of convertible bonds (Series 1) and the repayment of convertible bonds stated in Euro as explained above. For additional details on the working capital see Chapter A (section 1.9.21 above).

The Company’s shareholders equity as of December 31, 2007, amounted to approx. NIS

23,991,000 compared to NIS 21,430,000 as of December 31, 2006. The increase in this item primarily derives from the Company's net profit after offsetting the purchases of Ordinary Shares of the Company during the reported period (for details on share buy-back see section 1.4.3 above).

2.2.3.1 Analysis of Financial Situation by Sectors of Operation

As stated above, the Company's main commercial activities are performed through two business departments, the Products Department and the Systems Department. For further details concerning the sectors of the Company's operations, see Chapter A (sections 1.8, 1.9, 1.10 and 1.11) above.

The Products Sector

The total assets used in the Products sector as of December 31, 2007, did not change significantly and amounted to NIS 20,022,000 compared to approximately NIS 20,125,000 as of December 31, 2006.

The total liabilities in the Products sector as of December 31, 2007, amounted to NIS 8,600,000, compared to NIS 4,867,000 as of December 31, 2006. The increase in this item is mostly due to an increase in suppliers and service providers as well as an increase in advances from customers.

The Systems Sector

The total assets used in the Systems sector as of December 31, 2007, amounted to NIS 9,095,000, compared to approximately NIS 11,721,000 as of December 31, 2006. The decrease in this item is primarily due to a decline in trade receivable and income receivable in this sector.

The total liabilities in the Systems sector as of December 31, 2007, amounted to NIS 8,552,000, compared to NIS 15,580,000 as of December 31, 2006. The decrease in this item primarily stemmed from a decline in suppliers and service providers and a decline in accrued expenses.

Assets and liabilities not attributed to a specific sector of operation

The total assets not attributed to any particular sector of operation as of December 31, 2007, amounted to approximately NIS 83,985,000, compared to approximately NIS 91,392,000 as of December 31, 2006. The decrease in this item is mostly due to a decrease in the cash balance as set forth above.

The total liabilities not attributed to any particular sector of operation amounted as of December 31, 2007 to approximately NIS 71,903,000, compared to approximately NIS 81,410,000 as of December 31, 2006. The decrease in this item primarily stemmed from the repayment of bonds (Series 1) as set forth above.

2.2.4 Operating Results

Revenues

Revenues for the year ended December 31, 2007, amounted to NIS 102,353,000, compared to NIS 94,781,000 as of December 31, 2006 (an increase of 8%) and compared to NIS 80,774,000 in 2005 (an increase of 27%). The continued increase in revenues for five consecutive years stems, in the Company's opinion, from the following factors:

- Continued market recognition of the Company's products.
- New products offered by the Company. Most of these products have been developed in the last few years with new models introduced each year, including during the reported year.
- Global marketing efforts intended to enhance market penetration and product recognition.

For further details with regard to the Company's customers, including its major distributors, major customers, and geographic sectors see Chapter A (sections 1.9.12.3, 1.9.26 and 1.10.9) above.

Cost of revenues

The cost of revenues for the year ended December 31, 2007 amounted to NIS 70,787,000 (about 69% of revenues during the period), compared to NIS 62,176,000 for the year ended December 31, 2006 (about 66% of revenues during the period) and compared to NIS 55,888,000 for the year ended December 31, 2005 (about 69% of revenues during the period). The increase in this item is attributable to the growth in the Company's revenues, as explained above, with a change in the gross profit margins, as set forth below.

Gross profit

Total gross profit for the year ended December 31, 2007 amounted to NIS 31,566,000 (about 31% of the revenues during the period), compared to NIS 32,605,000 for the year ended December 31, 2006 (about 34% of the revenues during the period) and compared to NIS 24,886,000 for the year ended December 31, 2005 (about 31% of revenues during the period). The gross profit margins in the Products sector exceed those in the Systems sector. In the Company's opinion, the changes in the revenue mix from the different operating segments, changes in the pace of receipt of orders from customers, the relatively low profit margins of several transactions and the strengthening of the New Israeli Shekel against the main selling currencies, are the main reasons for the changes in gross profit margins during the reported period. For further details with regard to the gross profit in each sector of operation separately, see the analysis of business results by sectors of operation, below. For further details with regard to the profitability of products and services, see Chapter A (Section 1.9.9 and 1.10.8) above. The Company estimates that the gross profit margin in the Products sector may decrease in 2008 due to the implementation of Standard No. 30 as explained above[1].

[1] The information concerning the expected growth in the gross profit item is forward-looking information. The main

Development expenses, net

The net development expenses for the year ended December 31, 2007, amounted to NIS 1,562,000, compared to NIS 8,521,000 for the year ended December 31, 2006 and compared to NIS 5,753,000 for the year ended December 31, 2005. Most of the decrease in the reported period stems from the implementation of Standard No. 30 of the Israeli Institute of Accounting Standards commencing from January 2007, as set forth above. Following the implementation of the Standard, during the reported period an intangible asset was recognized in respect of development expenses in the sum of NIS 7,625,000, in respect of which the criteria for recognition of an intangible asset have been met.

The development expenses in the reported period reflect the continued enhanced development of technologies and products required to support the Company's continued growth. For further details with regard to new products and the Company's development activities, see Chapter A (section 1.9.18) above. During and after the reported period, the recruitment of manpower for the development teams continued, and the Company estimates that further increase in this item is expected in the coming quarters. In addition the Company expects an increase in the development expenses, required for the development of components in the Systems sector, intended, inter alia, for the purpose of reducing production costs in the Systems[2].

Sales and marketing expenses

Sales and marketing expenses for the year ended December 31, 2007 amounted to NIS 13,502,000 (about 13% of revenues), compared to NIS 10,970,000 for the year ended December 31, 2006 (about 12% of revenues) and compared to NIS 9,659,000 for the year ended December 31, 2005 (about 12% of revenues).
The increase in sales and marketing expenses for the reported period reflect an adjustment to the increase in revenues, required to support the continued growth in line with the Company's policy on this matter, and was primarily caused by the recruitment of staff for the marketing teams, participation in international exhibitions and other marketing activities in Israel and overseas. For further details on the marketing and distribution activities, see Chapter A (section 1.9.12 and 1.10.10) above. The Company anticipates continued growth in this item over the coming quarters[3].

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data which constitute the basis for this information are the development expenses for which the criteria for recognizing an intangible asset have been met pursuant to Standard 30. The main factors that could prevent this forecast from materializing are changes in the sales turnover of the products in respect of which development expenses were incurred, that were recognized as an intangible asset.

2 Information with regard to the expected growth in the R&D expenses item is forward-looking information. The main data that constitute the basis for this information are the Company's development plans as set forth in Chapter A (section 1.9.18), the actual stages of technology under development as of the reporting date, and the need for continued material investments in R&D expenses, in order to implement the Company's plans. The main factors likely to prevent this forecast from materializing are changes in the Company's development plans arising from reasons beyond its control (such as market needs and consumer preferences, competitors' developments, prices of raw materials and services required by the Company), lack of budget to finance any expenses required for continued development in general or to the extent required by the Company, and possible technological difficulties in connection with the completion of the development stages under these plans.

3 Information with regard to the expected growth in selling and marketing expenses is forward-looking

General and administrative expenses

General and administrative expenses for the year ended December 31, 2007 amounted to NIS 6,682,000 (6.5% of revenues), compared to NIS 6,102,000 for the year ended December 31, 2006 (6.5% of revenues) and compared to NIS 6,302,000 for the year ended December 31, 2005 (8% of revenues).

General and administrative expenses in the reported period reflect expenses required to support continued growth and to manage the increased activities of the Company, and principally comprise of current expenses in respect of professional consulting and legal services, expenses associated with the Company's securities dually listed on the Tel-Aviv Stock Exchange and the EuroNext Stock Exchange in Brussels.

Operating profit

The total operating profit for the year ended December 31, 2007, amounted to NIS 9,820,000 (9.6% of revenues), an increase compared to an operating profit of NIS 7,012,000 in the year ended December 31, 2006 (7.4% of revenues) and compared to a total operating profit of NIS 3,172,000 for the year ended December 31, 2005 (3.9% of revenues).

Based on the gross profit specified above, the increase in the operating profit in the reported period primarily stems from the decrease in R&D expenses (following the implementation of Standard 30, as explained above) , deducted by the increase in marketing expenses, as specified above.

Financing expenses

Financing expenses for the year ended December 31, 2007, amounted to NIS 7,046,000, compared to NIS 4,822,000 for the year ended December 31, 2006, and compared to NIS 2,511,000 for the year ended December 31, 2005.

Most of the growth in this item compared to the previous period is due to a decrease in revenues from marketable securities, as well as the revaluation of bonds (Series 2), which are linked to the Consumer Price Index, pursuant to the 2006 Prospectus. This items also includes the interest components of the Company's bonds, primarily bonds (Series 2) issued under the 2006 Prospectus, as well as financing costs in respect of long-term credit.

As of May 2004, the Company's exposure to changes in the exchange rate of the NIS compared to the USD increased, following the issue of the convertible bonds (Series 1) under the 2004 Prospectus, which are linked to the exchange rate of the US dollar, with a

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information. The main data that constitute the basis for this information are the Company's marketing activities, including planned visits to exhibitions and training sessions for distributors, and the need for continued material investments in marketing expenses. The main factors likely to prevent this forecast from materializing are changes in the Company's marketing plans due to reasons beyond its 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).

base rate of no less than NIS 4.59/dollar and due to the repayment of the bond principal, which commenced in May 2007. In addition to the exposure to fluctuations in the exchange rate, there is an interest component as a result of said issuance, and therefore, the Company estimates that this item may be affected by potential changes in interest rates.

As of August 2006 the Company’s exposure to changes in the CPI has increased, due to issue of bonds (Series 2) under the 2006 Prospectus, which are linked (principal and interest) to the CPI, with a base index of no less than 188.1 (1993 average).

Profit for the year

For the year ended December 31, 2007, the Company recorded a net profit of NIS 2,774,000, compared to a profit of NIS 2,128,000 for the year ended December 31, 2006, and compared to a profit of NIS 624,000 for the year ended December 31, 2005.

As detailed above, since 2007 the Company adopted Standard 30, and therefore a major part of the research and development expenses in this period were capitalized, compared to the period ending December 31st 2006, where Standard 30 was not applied and calculation of the expenses designated for capitalization were not performed (in absence of relevant documentation).

If the Company would have capitalized the same relative part of the research and development expenses also for the period ending December 31st 2006, the net profit of the Company would have decreased from approximately NIS 9.3 million for the year 2006, to approximately NIS 2.77 million for the year 2007.

Since the issuance of its shares to the public in September 1999 and the listing thereof on the Belgian Stock Exchange, the Company has conducted an investment policy under which it has made considerable investments in the establishment of an international marketing infrastructure (which has since then grown from 4 distributors to 140 distributors) and in the development of new products which are currently the main source of its revenues in the Products sector. In these years, the Company recorded losses, mainly due to these investments. The turning point and the shift to net profit was in 2004 (since 1998) and was primarily due to the growth and increase in revenues in recent years, which the Company believes can be attributed to the investments described above.

During the reported period, there was an increase in the reported net profit, mainly due to the growth in revenues from the Products sector in relation to revenues from the Systems sector, net of adjustments made during the period in the items of development, selling and marketing and general and administrative expenses, in order to support the Company's continued growth, and due to the financing expenses specified above.

2.2.4.1 Analysis of business results by sectors of operation

As stated above, the Company's main commercial activity is performed through two business departments, the Products Department and the Systems Department. For further details with regard to the sectors of operations and profit margins of these operations, see Chapter A (sections 1.8, 1.9, 1.10 and 1.11) above.

The revenues from products for the year ended December 31, 2007, were about 59% of total revenues for that year, whereas the revenues from systems for the same period were about 41% of the total revenues. For the year ended December 31, 2006, revenues from products were about 57% of total revenues for that year, whereas revenues from systems for the same period constituted 43% of the total revenues. For the year ended December 31, 2005, revenues from products constituted about 46% of total revenues for that year, whereas revenues from systems for the same period constituted 53% of the total revenues. The Company believes that the decrease in the percentage of revenues from systems in total revenues for the reported period primarily stems from the decrease in the pace of orders from customers, among others, as a result of the Company's continued efforts for development of new markets in this sector outside Israel (in the first stage, mainly in the US).

The Products Sector

Total revenues from the Products sector for the year ended December 31, 2007, amounted to NIS 60,041,000, compared to approximately NIS 53,711,000 for the year ended December 31, 2006, and compared to NIS 37,201,000 for the year ended December 31, 2005. The Company estimates that the 12% increase during the reported period is primarily due to increased market recognition of the Company's products and to its global marketing efforts.

The gross profit margin in the Products sector for the year ended December 31, 2007, amounted to 45%, compared to 49% for the year ended December 31, 2006, and compared to 50% for the year ended December 31, 2005. The change in this item in 2007 primarily stems from varying (albeit immaterial) profit margins of several transactions and changes in the mix of revenues from various product series (in the ordinary course of the Company's business), as well as the appreciation of the NIS against the dollar in 2007 and a rise in the cost of manufacturing staff in order to maintain the continued growth. For further details with regard to profitability from products, see Chapter A (Section 1.9.9) above.

The results of the Products sector for the year ended December 31, 2007, amounted to NIS 16,836,000, compared to NIS 17,427,000 for the year ended December 31, 2006, and compared to NIS 10,498 for the year ended December 31, 2005. The Company estimates that the 3% decrease in the reported period is primarily due to the decrease in the gross profit margin in this sector and the increase in other expenses attributed to the sector, net of the increase in revenues from this sector, as set forth above.

The Systems Sector

Total revenues from the Systems sector for the year ended December 31, 2007, amounted to NIS 41,613,000, compared to NIS 40,370,000 for the year ended December 31, 2006, and compared to NIS 42,862,000 for the year ended December 31, 2005. The moderate decrease of 3.3% in the reported period compared to the previous period primarily stems from the pace of progress in the construction of logistics systems by the Company's systems Department (in the ordinary course of the Company's business) and a decrease in the pace of orders from customers during the reported period as explained above.

The gross profit margin in the Systems sector for the year ended December 31, 2007, was 11%, compared to 15% for the year ended December 31, 2006, and compared to 14% for the year ended December 31, 2005.

The gross profit of the Company's operations in Systems sector varies from one transaction to another, primarily in line with the Company's position as a main contractor (which usually means larger financial volume and lower profitability, mainly due to the need for sub-contractors) or as a sub-contractor (which usually means lower financial volume and higher profitability, due to the use of internal resources), in line with the unique technical and functional requirements of each transaction, and the results of negotiations with the service orderers in each particular case. For further details concerning the profitability of products and services, see Chapter A (Section 1.10.8) above.

The results of the Systems sector for the year ended December 31, 2007, amounted to approximately NIS 1,168,000, compared to NIS 4,247,000 for the year ended December 31, 2006, and compared to NIS 4,591,000 for the year ended December 31, 2005. The Company estimates that the 73% decrease in the reported period primarily resulted from the decrease in the gross profit margin in this sector, as set forth above, and the increase in other expenses items attributed to this sector, mainly area of marketing.

2.2.5 Liquidity and financing sources

The balance of cash, cash equivalents and marketable securities of the Company for the year ended December 31, 2007, amounted to NIS 54,702,000, compared to NIS 70,296,000 for year ended December 31, 2006. This decrease was mainly attributable to the negative cash flow from investment and financing activities offset by positive cash flow from operating activities, as set forth in detail below.

The positive cash flow from operating activity for the year ended December 31, 2007, amounted to NIS 7,520,000, compared to a negative cash flow of NIS 4,807,000 for the year ended December 31, 2006, and compared to a positive cash flow of NIS 4,453,000 for the year ended December 31, 2005. The positive cash flow, in the reported year, primarily resulted from the net profit, depreciation, and increase in trade and income receivables, offset by the decrease in accounts payable and accruals during the period, as specified above.

Negative cash flow from investment activity for the year ended December 31, 2007, amounted to NIS 19,176,000, compared to a positive cash flow of NIS 2,295,000 for the year ended December 31, 2006, and compared to a negative cash flow of NIS 8,293,000 for the year ended December 31, 2005. The negative cash flow in the reported period primarily stems from the acquisition of marketable securities and the recognition of other assets and deferred expenses during the period.

Negative cash flow from financing activity for the year ended December 31, 2007, amounted to NIS 12,165,000, compared to a positive cash flow of NIS 26,876,000 for the year ended December 31, 2006, and compared to a negative cash flow of NIS 1,565,000 for the year ended December 31, 2005. The negative cash flow in the reported period primarily resulted from the repayment of convertible bonds (Series 1) and bonds stated in Euro, the repayment of loans and buy-back of Company shares.

As of December 31, 2007, the Company had a credit facility for operating activity in the sum of NIS 7.6 million. As of December 31, 2007, a total sum of NIS 62,000 from said credit facility was used for issuance of guarantees to secure the Company's liabilities in the projects carried out by the Systems Department.

2.3 Qualitative report on exposure to market risks and management thereof

The Company's CEO, Mr. Haim Shani, and its CFO, Mr. Yair Itzkovitch, are the persons responsible for the management of market risks in the Company (for details see sections 4.11a and 4.12b below, respectively). The CFO is responsible for gathering information in accordance with the risks listed below, and for processing and presenting the information to the CEO on a quarterly basis. The CEO is responsible for analyzing the information and drawing operative conclusions during his quarterly meetings with the CFO.

Exposure to Exchange Rate Fluctuations

The Company is exposed to exchange rate fluctuations, particularly fluctuations in the rate of the US dollar compared to the New Israel Shekel and compared to the Euro, for the reasons set forth below:

In May 2004, the Company issued convertible bonds (Series 1) pursuant to the 2004 Prospectus. The principal and interest of these bonds are linked to the representative rate of the US dollar (with a base rate of NIS 4.59/US1$). The repayment of bond principal began in May 2007. Until the full conversion or the full repayment of the bonds by May 2010, the Company is exposed to fluctuations in the rate of the US dollar against the NIS. On November 23, 2007, the Company made interest payments in respect of this bond.

In February 2001, the Company issued convertible bonds that were issued and denominated in Euros. In December 2003, 75% of the bond principal were converted into Company shares. Until the full repayment or conversion of these bonds, from May 2006 to September 2008, the Company is exposed to fluctuations in the exchange rate of the Euro against the NIS. Until February 7, 2008, the Company paid 8 out of 10 principal and interest payments in respect of this bond.

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

The current liabilities items that are exposed to exchange rate fluctuations include current maturities of long-term loans mostly linked to foreign currency as well as debts to suppliers in foreign currency, mainly in Euros. The long-term liabilities include loans in respect of a financing plan for the acquisition of rights in the Company's facilities at Airport City, 50% of which are denominated in US dollars, and 50% denominated in Euro.

Most of the Company's operations are conducted in foreign currency, or in NIS linked to foreign currency. In the Products sector, most of the revenues are denominated in US dollars or linked to the US dollar's exchange rate, with the exception of revenues generated from sales in Europe, which, for the most part, are denominated in Euro. In the Systems sector, most of the Company's revenues are generated from sales stated in Euro or linked to the Euro's exchange rate.

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

Exposure to fluctuations in the Consumer Price Index

In August 2006, the Company issued bonds (Series 2). These bonds are linked to the Israeli consumer price index, with a basic index of 188.1 (1993 average). Therefore, as of August 2006 the Company’s exposure to CPI fluctuations has increased. Developments in Israel’s economy, including devaluation and inflation, could give rise to fluctuations in the Consumer Price Index, and consequently could affect the Company's financing revenues and/or financing expenses.

Risks related to negotiable securities

Part of the Company's financial means is invested in negotiable securities. Unusual developments in capital markets in Israel and worldwide could give rise to fluctuations in the prices of marketable securities traded on the stock exchange, and consequently could affect the Company's financing income and/or financing expenses.

Interest risks

The Company has various loans in connection with the acquisition of rights in the Company's facilities at Airport City, convertible bonds (Series 1), which the Company issued under the 2004 Prospectus, and other credit facilities bearing various interest rates and exposed to possible changes in the Prime and/or Libor interest rates.

Company policy on market risk management

The Company's policy is to try to reduce, for each contract, the exposure to exchange rate fluctuations by adjusting the currency of revenues to the currency of the main expenses. In the Systems sector, the Company usually links the payment terms (date / currency) from different customers to those of the subcontractors.

Company policy on investment allocation is guided by the Company's intention to reduce its exposure to dollar-linked liabilities (primarily principal and interest payments for dollar-denominated convertible bonds (Series 1)).

To this end the Company reviewed, by consulting capital market professionals, subsequent to the 2004 Prospectus (and after receiving the issuance proceeds) several investment alternatives, including: dollar-linked deposits, use of derivatives and other financial instruments and use of shekel-linked investments.

The Company estimates that, since its liabilities for the convertible bonds (Series 1) issued under the 2004 Prospectus are linked to the dollar exchange rate but no lower than a base rate of NIS 4.59 per dollar, the use of dollar-linked deposits alone would not secure the Company's liabilities with regard to convertible bonds (Series 1), especially following the fall of the dollar's exchange rate below the aforementioned base rate. On May 24, 2007, the Company repaid 25% of the principal of the convertible bonds (Series 1) in the sum of NIS 8,750,000 at a base rate of NIS 4.59/dollar (while the dollar's representative rate on the payment date was only NIS 3.9910/dollar).

The use of derivatives and other financial instruments to ensure against changes in the dollar's exchange rate in order to meet the Company's liabilities in respect of its convertible bonds (Series 1) was deemed by the Company to be financially inadvisable due to high costs associated with it.

Beyond the activities set forth above, the management of market risks and the use of hedging during the reported year are presented quarterly to the board of directors as part of discussions of periodic reports.

2.4 Disclosure of Auditor Salary (Directive of the Securities Authority pursuant to section 36a (b) of the Law)

Pursuant to the directive of the Israeli Securities Authority issued under section 36a(b) of the Securities Law 5728-1968, listed below are the total remuneration figures which the Company's auditors are entitled to with respect to auditing and other services:

CPA	Company to which service is rendered	Type of Service	2007 NIS in thousands	2007 Work hours	2006 NIS in thousands	2006 Work hours
Amit Halfon, CPA, Ramat Gan, Israel	Unitronics (1989) (R"G) Ltd.	Audit services, audit-related services and tax services	264	1,100	381	812

Amit Halfon, CPA, Ramat Gan, Israel	Unitronics (1989) (R"G) Ltd.	Prospectus processing	0	0	154	288
Clarke, Snow & Riley LLP Quincy, MA, USA	Unitronics Inc.	Audit services, audit-related services and tax services	113	200	142	244

2.5 Consolidated Linkage-Basis Report as of December 31, 2007

Consolidated linkage-basis report	Israeli Currency		Foreign Currency				
	Not linked	Linked to the Consumer Price Index	In Euros	In US Dollars	In other currencies	Non-monetary balances	Total
			NIS thousand				
Assets							
Cash and cash equivalents	3,851		2,494	9,740	-	-	16,085
Negotiable Securities	5,089	26,025	-	7,503	-	-	38,617
Accounts Receivable	8,771	-	2,804	2,420	-	-	13,995
Accounts Payable	157	-	-	-	-	23	180
Inventory	-	-	-	-	-	12,981	12,981
Work-in-progress inventory	-	-	-	-	-	319	319
Long-term deposits	-	-	-	-	-	444	444
Fixed assets, net	-	-	-	-	-	22,862	22,862
Other assets and deferred expenses, net	-	-	-	-	-	7,770	7,770
Total Assets	17,868	26,025	5,298	19,663	-	44,399	113,253
Liabilities							
Short term credit and current maturities of long-term loans	-	127	2,478	9,170	-	-	11,775
Accounts payable - trade	6,620	-	3,468	2,542	-	-	12,630
Accounts payable - other	6,975	-	-	218	-	663	7,856
Long-term loans	-	102	4,700	3,776	-	-	8,578
Convertible bonds	-	-	-	15,936	-	-	15,936
Bonds	-	30,941	-	-	-	-	30,941
Liability for employee severance pay, net	1,546	-	-	-	-	-	1,546
Deferred taxes	-	-	-	-	-	-	-
Total liabilities	15,141	31,170	10,646	31,642	-	663	89,262
Balance (Net)	2,727	(5,145)	(5,348)	(11,979)	-	43,736	23,991

2.5 Consolidated Linkage-Basis Report as of December 31, 2006

Consolidated linkage-basis report	Israeli Currency		Foreign Currency				
	Not linked	Linked to the Consumer Price Index	In Euros	In US Dollars	In other currencies	Non-monetary balances	Total
			NIS thousand				
Assets							
Cash and cash equivalents	27,431	-	8,300	4,175	-	-	39,906
Negotiable Securities	4,687	15,794	-	9,909	-	-	30,930
Accounts Receivable	9,914	-	1,881	3,880	-	-	15,675
Accounts Payable	199	315	-	-	-	52	566
Inventory	-	-	-	-	-	13,663	13,663
Work-in-progress inventory	-	-	-	-	-	194	164
Long-term deposits	-	-	-	-	-	339	339
Fixed assets, Net	-	-	-	-	-	22,019	22,019
Other assets and deferred expenses, Net	-	-	-	-	-	750	750
Total Assets	42,231	16,109	10,181	17,964		31,017	123,702
Liabilities							
Short term credit and current maturities of long-term loans	-	136	2,373	9,211	-	-	11,720
Accounts payable - trade	8,893	-	2,962	246	11	-	12,112
Accounts payable - other	10,470	-	-	756	-	218	11,444
Long-term loans	-	230	5,137	4,611	-	-	9,978
Convertible bonds	-	-	1,849	23,482	-	-	25,331
Bonds		29,859	-	-	-	-	29,859
Liability for employee severance pay, net	1,628	-	-	-	-	-	1,628
Total liabilities	20,991	30,225	12,321	38,306	11	218	102,272
Balance (Net)	21,040	(14,116)	(2,140)	(20,342)	(11)	36,799	21,430

2.5.1 Sensitivity tests of financial instruments as of December 31, 2007

As of the balance sheet date, the Company conducted 4 sensitivity tests in respect of changes within an upper range and lower range of 5% and 10% in market factors.
The market tests were based on the model specified.

1) A table listing changes to the fair value of financial instruments sensitive to changes in the dollar's exchange rate

	Profit (loss) due to change, NIS in thousands		NIS in thousands	Profit (loss) due to change, NIS in thousands	
	10%+ NIS 4.23 per $	5%+ NIS 4.04 per $	Fair Value NIS 3.846 per $	-5% NIS 3.65 per $	-10% NIS 3.46 per $
Cash and cash equivalents	974	487	9,740	-487	-974
Marketable securities	750	375	7,503	-375	-750
Accounts receivable	242	121	2,420	-121	-242
Short term credit and current maturities of long-term liabilities (**)	-42	-21	-9,170	21	42
Suppliers and service providers	-254	-127	-2,542	127	254
Accounts payable and accruals	-22	-11	-218	11	22
Long-term loans	-378	-189	-3,776	189	378
Convertible bonds (**)	-	-	-15,936	-	-
Total	1,270	635	-11,979	-635	-1,270

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

2) A table listing changes to the fair value of financial instruments sensitive to changes in the Euro's exchange rate

	Profit (loss) due to change, NIS in thousand		NIS in thousands	Profit (loss) due to change, NIS in thousand	
	10%+ NIS 6.23 per €	5%+ NIS 5.94 per €	Fair Value NIS 5.6592 per €	-5% NIS 5.38 per €	-10% NIS 5.09 per €
Cash and cash equivalents	249	125	2,494	-125	-249
Accounts receivable	280	140	2,804	-140	-280
Short term credit and current maturities of long-term liabilities	-248	-124	-2,478	124	248
Suppliers and service providers	-347	-173	-3,468	173	347
Long-term loans	-470	-235	-4,700	235	470
Convertible bonds	-	-	-	-	-
Total	-536	-267	-5,348	267	536

3) A table listing changes to the fair value of financial instruments sensitive to changes 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%+ 210.27 points	5%+ 200.71 points	Fair Value 191.15 points	-5% 181.59 points	-10% 172.03 points
Marketable securities	2,603	1,301	26,026	-1,301	-2,603
Short term credit and current maturities of long-term liabilities	-13	-6	-127	6	13
Long-term loans	-10	-5	-102	5	10
Bonds (***)	-3,094	-1,547	-30,941	494	494
Total	-514	-257	-5,144	-796	-2,086

*** Bonds issued at a basic index of 188.1 points (1993 Average)

4) A table listing changes to the fair value of financial instruments sensitive to changes in rates of marketable securities

	Profit (loss) due to change, NIS in thousands		NIS thousand	Profit (loss) due to change, NIS in thousands	
	10%+	5%+	Fair Value	-5%	-10%
Local - Government	1,193	596	11,927	-596	-1,193
Local - Corporate	2,669	1,335	26,690	-1,335	-2,669
Overseas - Corporate	3,862	1,931	38,617	-1,931	-3,862
Total	10%+	5%+	Fair Value	-5%	-10%

2.6 Details of Company's internal auditor

(a) The Company's internal auditor is CPA Eyal Horovitz (jurist) who has held this position since June 2000. His appointment was approved at the meetings of the Audit Committee and Board of Directors on June 18, 2000. To the best of the Company's knowledge, CPA Horovitz complies with provisions of Section 146(b) of the Companies Ordinance and provisions of Section 8 of the Internal Audit Law, 5752 - 1992 (hereinafter: "**the Internal Audit Law**"). The credentials that qualify CPA Horowitz for his position as the Company's internal auditor are his education as a CPA and jurist and his involvement in the audit as a CPA and an internal auditor of public companies since 1991. The internal auditor was appointed after the Audit Committee and the Board of Directors have reviewed his experience and track record in internal auditing of other public companies considering, among others, the type and size of the company as well as the scope and complexity of its operations.
The Company's internal auditor has no business relations or other affiliations with the Company or its controlling shareholder, nor – to the best of the Company's knowledge - to affiliated entities.

(b) CPA Horovitz is not an employee of the Company and provides internal auditing services to the Company as an external entity via **Oren Horovitz *et al* CPAs**, of 12 HaHilazon Street, Ramat Gan (Company ID 557684875) which has an internal auditing department and whose employees have skills in various disciplines.

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

(d) <u>The annual and multi-annual audit plan and considerations in its determination:</u> The considerations in drawing up the current and multi-annual audit plan at the Company are mainly (1) proposals of the internal auditor for periodic and annual working plans; (2) proposals of members of the Audit Committee and the Board of Directors of the Company, based on, among other factors, the proposals of the internal auditor, the subjects of the internal audit in past years, the recommendations of the Company's legal advisor and issues that have been discussed at regular meetings of the Audit Committee and the Board of Directors of the Company; and (3) the size of the Company, its organizational structure and the nature and scope of its business activities. The Audit Committee and Board of Directors discuss and approve the annual plan and the issues to be reviewed by the internal auditor, and those issues are reviewed by the internal auditor as part of his annual work. The internal auditor is authorized to exercise his discretion as to whether to deviate from the original plan in order to review data he randomly found during the execution of the annual work plan. Should the internal auditor decide to conduct a comprehensive review of a subject or area not included in the list of issues approved by the Audit Committee for the annual work plan, the auditor will recommend that the Audit Committee's Chairman amend the plan, and the latter would raise the issue for discussion and approval during Audit Committee meetings.

In the reported period, the Company executed material transactions not reviewed by the internal auditor (for details see section 4.16 below). Nevertheless, in the internal audit report for 2004, the internal auditor did address issues of salary, benefits and transactions with interested parties in the Company.

(e) From time to time, and as needed, the audit plan also addresses overseas operations conducted by the Company. In the internal audit report for 2003, the internal auditor made reference to several aspects of the activities of Unitronics Inc. (a wholly-owned subsidiary of the Company engaged primarily in coordinating the marketing and distribution activities of the Company in the US - for details see section 1.21.2 above) - including monitoring the implementation of the internal auditor’s recommendations on these issues. However, the Company’s overseas operations have not yet been fully reviewed by the internal auditor, and in any case all the Company's documents regarding its overseas operations and/or the overseas operation of its subsidiary, are available to the internal auditor in Israel.

From time to time, and as needed, the audit plan also addresses the activities of the Company's subsidiaries in Israel. The Company's internal audit report for 2004 made reference to several aspects of the activity of Unitronics House Management and Maintenance (2003) Ltd. - a wholly-owned subsidiary of the Company (for details see section 1.21.1 above).

(f) The extent of services of the internal auditor and the staff of employees reporting to him in the matter of internal audit for the Company during the years 2005, 2006 and 2007 was 100-200 hours each year. The Board of Directors believes that this scope is in line with the extent of activity reviewed by the auditor. The auditor is authorized to shift hours from one subject to another, and since his work is continuous, the auditor can shift hours from one year to the next in order to allow for an in-depth and extensive coverage of the reviewed subjects at his discretion. Furthermore, the extent of employment of the internal auditor is determined each year together with the approval of the work plan, while taking into consideration the scope of the work plan for the relevant year, its complexity and the sensitivity of the subjects reviewed during that year.

Hours	2005	2006	2007
Hours invested in internal audit of the Company and held companies, regarding their operations in Israel.	200	100	175
Hours invested in internal audit of the Company and held companies, regarding their operations overseas.	0	0	0

To date the number of hours has not been reduced; nevertheless the auditor shifts hours between subjects and from one year to another.

(g) The internal auditor, according to his notice to the Company dated February 17, 2005, conducts the audit at the Company in accordance with generally accepted professional standards, as detailed in Section 4(b) of the Internal Audit Law 5752 - 1992, which are based on the professional standards for internal auditing of the Israeli Internal Auditors' Chamber. The Board of Directors believes that the internal auditor meets the requirements stipulated by the above standards, considering the internal auditor's professional aptitude, skills, the duration of his employment by the Company, his familiarity with the Company and the manner in which he edits, submits and presents the findings of his audits to the Company.

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

(i) Below are details of the dates in which a written report on the internal auditor's findings was served upon the Chairman of the Board of Directors and the Chairman of the Audit Committee, and the dates on which a discussion was held regarding the reports at the Audit Committee and/or at the Board of Directors of the Company.

Issue	Report for 2005	Report for 2006	Report for 2007
Date of submission of internal auditor's report	February 8, 2006	March 5, 2007	May 15, 2008
Date of discussion by Audit Committee	February 20, 2006	March 25, 2007	May 22, 2008
Date of discussion by Board of Directors	February 20, 2006	March 25, 2007	May 22, 2008

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

(k) For services rendered by him in 2007, the internal auditor was paid a sum of NIS 34,000 (or about US$ 8,800). The internal auditor is paid an hourly rate of US $50. In the Board of Directors' opinion, the compensation of the internal auditor does not influence his professional discretion considering, among others, the Board of Directors' impression of the manner in which he performs the work of internal auditor at the Company, the level of detail, accuracy and diligence of the audit findings submitted by him to date, as well as the amount of his overall income relative to his wages as the Company's internal auditor.

2.7 Company's Position Regarding Peer Review of the Institute of Certified Public Accountants (Directive of the Securities Authority pursuant to section 36a(b) of the Law)

On April 20, 2005, the Securities Authority published a directive requiring disclosure regarding consent to "peer review", with the purpose, as described in the directive, of setting in motion a process of supervision of work performed by accounting firms. On August 11, 2005, November 17, 2005, and March 27, 2006 the Board of Directors of the Company discussed the possibility that the Company would be requested to cooperate with the Peer Review Institute, as part of a representative sample, and to disclose documents connected with auditing work that had been performed with respect thereto, and which are in the possession of the Company auditor. The Company's board of directors approved the consent required by the Company for conducting the review.

2.8 Directors with Accounting Skills: At the meeting of the Company's Board of Directors held on March 18, 2004, the Company's Board of Directors determined that the proper minimal number of directors of the Company with accounting and financial skills, taking into consideration, *inter alia*, the size of the Company, the type of its operation, its complexity, etc, would be one director, for as long as the Company's Board of Directors comprises up to six members. In practice, there are three directors with financial accounting skills out of five incumbent Board members, namely: Messrs. Zvi Livne and Ron Mishael who are CPAs and currently work as accountants and Mr. Moshe Baraz who is a CPA and serves as a vice president and a chief financial officer (for further details see section 4.11.1 below).

2.9 Charitable Donation Policy: The Company's Articles of Association has no provisions for making charitable donations, and therefore the Company has no policy concerning charitable donation and has not made any such donations in the relevant periods.

2.10 Critical accounting estimates: The critical accounting estimates used in the financial statements are: (a) estimates referring to cost and completion rate of projects where revenues are recognized as per Accounting Standard No. 4; (b) Provisions for doubtful debts.

Estimates method: in the opinion of the Company's project managers, an estimate of project cost is determined based on an estimation of project managers within the Company and is approved by a senior manager. In case of material deviation during the project's life cycle, the estimate is reviewed and finally approved by a senior manager. The completion measure is estimated by the project managers based on physical progress and milestones in project execution.

2.11 Transfer to International Financial Reporting Standard:

In July 2006 the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" - hereinafter: the **"Standard**". The Standard stipulates that entities subject to the Securities Law 5728-1968 and obligated to report according to provisions of this law, shall prepare their financial statements according to IFRS standards for periods commencing on January 1, 2008. The Standard allows for early adoption starting with financial statements published after July 31, 2006.

Initial adoption of IFRS standards will be made by implementing the IFRS 1, "First Adoption of IFRS regulation", for transition. According to the Standard, the Company should include in a note to its annual financial statements as of December 31, 2007 the balance sheet data as of December 31, 2007 and the income statement data for the year ended on that date, after application of recognition, measurement and presentation rules of IFRS regulations.

The Company is preparing to adopt the IFRS, and to that end it has examined the material effects, which are expected to derive from the adoption of these standards. The Company's management has appointed the CFO to head the process of adopting IFRS. Information on the Company's preparations for reporting in accordance with IFRS as well as a qualitative description of the expected effects on the Company's consolidated financial statements as a result of the transition, has been provided by the Company under the Board of Director's Report in the Periodic Report as of December 31, 2006 (see section 2.11 in the Periodic Report as of March 26, 2007). Existing information or estimates on the quantitative effect of the transition to IFRS on the Company's financial statements are provided by the Company under the Board of Directors' Report in the

Periodic Report as of June 30, 2007 (see section 7 in Chapter B of the Periodic Report dated August 15, 2007).

For additional details concerning balance data as of December 31, 2007 and statement of income data for the year 2007, after the application of recognition, measurement and presentation rules of IFRS standards, see note 31 to the financial statements in Chapter C below.

2.12 Details on the process of approval of the Company’s financial statements

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

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

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

Haim Shani, CEO and Chairman of the Board of Directors March 13 , 2008	Zvi Livne, Director March 13 , 2008

UNITRONICS (1989) (R"G) LTD.

Financial Statements
December 31,2007

Unitronics (1989) (R"G) Ltd.

Financial Statements

December 31, 2007

Table of contents

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

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

Independent Auditors' Report
To the shareholders of Unitronics (1989) (R"G) Ltd.

We have audited the accompanying balance sheets of Unitronics (1989) (R"G) Ltd. (hereinafter the "Company"), and the consolidated balance sheets of the Company and its subsidiaries as at December 31, 2006 and 2007, and the statements of operations, shareholders' equity and cash flows of the Company, and of the Company and its subsidiaries consolidated for each of the three years the last of which ended December 31, 2007. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of a subsidiary whose assets constitute 4% and 10% of the total consolidated assets as at December 31, 2006 and 2007 respectively and whose revenues constitute 11%, 13% and 17%, of the total consolidated revenues for the years ended December 31, 2005, 2006 and 2007 respectively. The financial statements of the subsidiary were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts emanating from the financial statements of the subsidiary, is based on the opinions of the other auditors.

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

In our opinion, based on our audit and on the reports of the above mentioned other auditors, the above financial statements present fairly, in all material respects, the financial position of the Company, and the consolidated financial position of the Company and its subsidiaries as at December 31, 2006 and 2007, and the results of operations, changes in shareholders' equity and cash flows of the Company, and of the Company and its subsidiaries consolidated for each of the three years the last of which ended December 31, 2007, in conformity with generally accepted accounting principles in Israel (Israeli GAAP).

As described in Note 2D, the above financial statements are presented in reported New Israeli Shekels in conformity with Accounting Standards of the Israel Accounting Standards Board.

Amit, Halfon
Certified Public Accountants (Israel)

March 13, 2008

Notes	Unitronics (1989) (R"G) Ltd. Consolidated Balance Sheets	December 31, 2007	December 31, 2007	December 31, 2006	
			(in thousands)		
		Convenience translation into EURO, (unaudited) (1)	Reported NIS		
2H;3	Cash and cash equivalents	2,842	16,085	39,906	
2I;4	Marketable securities	6,824	38,617	30,390	
	Accounts receivable -				
5	Trade	2,473	13,995	15,675	
6	Other	32	180	566	
2J;7	Inventory	2,294	12,981	13,663	
2K;8	Inventory - work in progress	56	319	194	
	Current assets	*14,521*	82,177	*100,394*	
	Long-term deposits	*78*	*444*	*339*	
2M;10	*Property and equipment*	*3,926*	*22,217*	*22,019*	*(*)*
11	*Other assets and deferred expenses, net*	*1,487*	*8,415*	*750*	*(*)*
24D	***Total assets***	***20,012***	***113,253***	***123,502***	
12	Current maturities of long-term liabilities	2,081	11,775	11,720	
	Accounts payable -				
13	Trade	2,232	12,630	12,112	
14	Other	1,388	7,856	11,444	
	Current liabilities	*5,701*	*32,261*	*35,276*	
15	Long-term loans	1,516	8,578	9,978	
2O;16A	Convertible bonds	2,816	15,936	25,331	
2O;16B	Bonds	5,467	30,941	29,859	
17	Accrued severance pay, net	273	1,546	1,628	
	Long-term liabilities	*10,072*	*57,001*	*66,796*	
18	Contingent liabilities, mortgages and guarantees				
19	*Shareholders' equity*	*4,239*	*23,991*	*21,430*	
24D	***Total liabilities and shareholders' equity***	***20,012***	***113,253***	***123,502***	

Haim Shani
Chairman of the Board of Directors
And Chief Executive Officer

Tzvi Livne
Director

Yair Itscovich
Chief Financial Officer

(*) Re-classified, see Note 2Q.
Approved: March 13, 2008

(1) See Note 2F.

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

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

Notes		For the year ended December 31, 2007	For the year ended December 31, 2007	2006	2005
		Convenience translation into EURO, (unaudited) (1)	Reported NIS (in thousands)		
2P;20A	Revenues	18,086	102,353	94,781	80,774
20B	Cost of revenues	12,508	70,787	62,176	55,888
	Gross profit	*5,578*	*31,566*	*32,605*	*24,886*
2Q;20C	Development expenses, net	276	1,562	8,521	5,753
20D	Selling & marketing expenses	2,386	13,502	10,970	9,659
20E	General & administrative expenses	1,181	6,682	6,102	6,302
	Operating profit	*1,735*	*9,820*	*7,012*	*3,172*
20F	Financing expenses, net	1,245	7,046	4,827	2,511
	Operating profit after financing expenses, net	*490*	*2,774*	*2,185*	*661*
	Other income, net	-	-	23	-
	Profit before taxes on income	*490*	*2,774*	*2,208*	*661*
2T;21	Taxes on income	-	-	85	37
	Profit for the year	*490*	*2,774*	*2,123*	*624*
2U;23	*Profit per 1 ordinary share NIS* 0.02 par value	*0.044*	*0.250*	*0.185*	*0.054*

(1) See Note 2F.

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

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

	Share capital							
	Number of shares*	Amount	Capital reserves	Share premium	Receipts on account Of warrants and conversion option	Company shares held by the company	Accumulated loss	Total
	Reported NIS in thousands							
Balance at January 1, 2005	11,676,546	352	-	48,442	676	-	(28,855)	20,615
Purchase of company shares by the company	-	-	-	-	-	(574)	-	(574)
Profit for the year	-	-	-	-	-	-	624	624
Balance at December 31, 2005	11,676,546	352	-	48,442	676	(574)	(28,231)	20,665
Purchase of company shares by the company	-	-	-	-	-	(2,066)	-	(2,066)
Split of conversion option from convertible bonds, net	-	-	-	-	235	-	-	235
Benefit arising from warrants granted	-	-	11	-	-	-	-	11
Receipts on account of warrants	-	-	-	-	462	-	-	462
Profit for the year	-	-	-	-	-	-	2,123	2,123
Balance at December 31, 2006	11,676,546	352	11	48,442	1,373	(2,640)	26,108	21,430
Purchase of company shares by the company	-	-	-	-	-	(213)	-	(213)
Expiration of conversion option of convertible bonds, net	-	-	-	59	(59)	-	-	-
Profit for the year	-	-	-	-	-	-	2,774	2,774
Balance at December 31, 2007	11,676,546	352	11	48,501	1,314	(2,853)	(23,334)	23,991

	Share capital							
	Number of shares*	Amount	Capital reserves	Share premium	Receipts on account Of warrants and conversion option	Company shares held by the company	Accumulated loss	Total
	Convenience translation into EURO, in thousands (unaudited) (1)							
Balance at January 1, 2007	11,676,546	62	2	8,560	243	(466)	(4,613)	3,788
Purchase of company shares by the company	-	-	-	-	-	(39)	-	(39)
Expiration of conversion option of convertible bonds, net	-	-	-	10	(10)	-	-	-
Profit for the year	-	-	-	-	-	-	490	490
Balance at December 31, 2007	11,676,546	62	2	8,570	233	(505)	(4,123)	4,239

* See Note 19.
(1) See Note 2F.

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

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

	For the year ended December 31,	For the year ended December 31,		
	2007	2007	2006	2005
	(in thousands)			
	Convenience translation into EURO, (unaudited) (1)	Reported NIS		
Profit for the year	490	2,774	2,123	624
Depreciation and amortization	749	4,238	3,610	3,004
Loss (profit) from marketable securities, net	142	803	867	(1,049)
Benefit arising from warrants granted	-	-	11	-
Capital gain	-	-	(23)	-
Increase (decrease) in accrued severance pay, net	(15)	(82)	282	206
Deferred taxes, net	-	-	85	35
Exchange rate changes of long-term debt and convertible bonds	37	211	(352)	97
Decrease (increase) in accounts receivable - trade	198	1,120	(5,572)	(3,241)
Decrease (increase) in accounts receivable - other	72	409	463	(126)
Decrease (increase) in inventory	121	682	(4,212)	334
Decrease (increase) in inventory - work in progress	(22)	(125)	(194)	443
Increase (decrease) in accounts payable - trade	92	518	(1,034)	(284)
Increase (decrease) in accounts payable - other	(535)	(3,028)	(861)	4,410
Cash flows provided by (used in) operating activities	*1,329*	*7,520*	*(4,807)*	*4,453*
Sale of (investment in) marketable securities, net	(1,596)	(9,030)	2,106	(4,178)
Change in restricted cash	-	-	2,300	(2,300)
Purchase of property and equipment	(353)	(1,996)	(1,865)	(1,637)
Sale of equipment	-	-	48	-
Investment in long-term deposits	(35)	(201)	(176)	(94)
Repayment of long-term deposits	13	73	38	26
Investment in other assets and deferred expenses	(1,417)	(8,022)	(156)	(110)
Cash flows used in investing activities	(3,388)	*(19,176)*	*2,295*	*(8,293)*
Loans received from banks	-	-	-	11,063
Repayment of long-term loans	(217)	(1,229)	(125)	(12,042)
Short-term credit from banks, net	-	-	(1)	(12)
Repayment of convertible bonds	(1,895)	(10,723)	(1,000)	-
Receipts on account of warrants	-	-	462	-
Purchase of company shares by the company	(38)	(213)	(2,066)	(574)
Bonds issue	-	-	29,606	-
Cash flows provided by (used in) financing activities	(2,150)	*(12,165)*	*26,876*	*(1,565)*
Increase (decrease) in cash and cash equivalents	(4,209)	*(23,821)*	*24,364*	*(5,405)*
Cash and cash equivalents at beginning of year	7,051	39,906	15,542	20,947
Cash and cash equivalents at end of year	2,842	16,085	39,906	15,542

(1) See Note 2F.

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

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

Notes		December 31, 2007	December 31, 2007	December 31, 2006	
			(in thousands)		
		Convenience translation into EURO, (unaudited) (1)	Reported NIS		
2H;3	Cash and cash equivalents	1,311	7,417	39,267	
2I;4	Marketable securities	6,824	38,617	30,390	
	Accounts receivable -				
5	Trade	2,198	12,441	13,375	
6	Other	1,630	9,227	7,549	
2J;7	Inventory	2,127	12,035	13,054	
2K;8	Inventory - work in progress	56	319	429	
	Current assets	*14,146*	*80,056*	*104,064*	
	Long-term deposits	*78*	*444*	*339*	
2L;9	*Investment in subsidiaries*	*320*	*1,809*	*55*	
2M;10	*Property and equipment*	*3,897*	*22,055*	*21,842*	(*)
11	*Other assets and deferred expenses, net*	*1,487*	*8,415*	*750*	(*)
	Total assets	***19,928***	***112,779***	***127,050***	
12	Current maturities of long-term liabilities	2,081	11,775	11,720	
	Accounts payable -				
13	Trade	2,195	12,422	11,897	
14	Other	1,331	7,534	10,947	
	Current liabilities	*5,607*	*31,731*	*34,564*	
15	Long-term debt	1,516	8,578	9,978	
2O;16A	Convertible bonds	2,816	15,936	25,331	
2O;16B	Bonds	5,467	30,941	29,859	
9	Provision for loss of subsidiaries	10	56	4,260	
17	Accrued severance pay, net	273	1,546	1,628	
	Long-term liabilities	*10,082*	*57,057*	*71,056*	
18	Contingent liabilities, mortgages and guarantees				
19	*Shareholders' equity*	4,239	*23,991*	*21,430*	
	Total liabilities and shareholders' equity	***19,928***	***112,779***	***127,050***	

(*) Re-classified, see Note 2Q.

(1) See Note 2F.

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

Notes	Unitronics (1989) (R"G) Ltd. Statements of Operations Company	For the year ended December 31, 2007	For the year ended December 31, 2007	2006	2005
			(in thousands)		
		Convenience translation into EURO, (unaudited) (1)	Reported NIS		
2P;20A	Revenues	17,175	97,198	90,734	77,495
20B	Cost of revenues	12,113	68,552	61,345	55,229
	Gross profit	*5,062*	*28,646*	*29,389*	*22,266*
2Q;20C	Development expenses, net	276	1,562	8,521	5,753
20D	Selling & marketing expenses	1,717	9,715	7,884	6,849
20E	General & administrative expenses	1,052	5,953	5,421	5,466
	Operating profit	*2,017*	*11,416*	*7,563*	*4,198*
20F	Financing expenses, net	1,166	6,600	4,567	2,294
	Operating profit after financing expenses, net	*851*	*4,816*	*2,996*	*1,904*
	Other income, net	-	-	23	-
	Profit before taxes on income	*851*	*4,816*	*3,019*	*1,904*
2T;21	Taxes on income	-	-	85	35
	Profit after taxes on income	*851*	*4,816*	*2,934*	*1,869*
	The Company's share of subsidiaries losses	361	2,042	811	1,245
	Profit for the year	*490*	*2,774*	*2,123*	*624*
2U;23	*Profit per 1 ordinary share NIS 0.02 par value*	*0.044*	*0.250*	*0.185*	*0.054*

(1) See Note 2F.

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

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

	For the year ended December 31,	For the year ended December 31,		
	2007	2007	2006	2005
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	Reported NIS		
Profit for the year	490	2,774	2,123	624
The Company's share of subsidiaries losses	361	2,042	811	1,245
Depreciation and amortization	739	4,183	3,564	2,958
Benefit arising from warrants granted	-	-	11	-
Loss (profit) from marketable securities, net	142	803	867	(1,049)
Capital gain	-	-	(23)	-
Increase(decrease) in accrued severance pay, net	(15)	(82)	282	206
Deferred taxes, net	-	-	85	35
Exchange rate changes of long-term debt and convertible bonds	37	211	(352)	97
Decrease (increase) in accounts receivable - trade	66	374	(4,875)	(2,542)
Increase (decrease) in accounts receivable - other	(1,706)	(9,655)	(687)	(2,475)
Decrease (increase) in inventory	180	1,019	(3,831)	314
Decrease (increase) in inventory - work in progress	19	110	(429)	443
Increase (decrease) in accounts payable - trade	93	525	(1,040)	(277)
Increase in accounts payable - other	(504)	(2,853)	(1,006)	4,120
Cash flows provided by (used in) operating activities	*(98)*	*(549)*	*(4,500)*	*3,699*
Sale of (investment in) marketable securities, net	(1,596)	(9,030)	2,106	(4,178)
Change in restricted cash	-	-	2,300	(2,300)
Purchase of property and equipment	(346)	(1,956)	(1,814)	(1,576)
Sale of equipment	-	-	48	-
Investment in long-term deposits	(35)	(201)	(176)	(94)
Repayment of long-term deposits	13	73	38	26
Investment in other asserts and deferred expenses	(1,417)	(8,022)	(156)	(110)
Cash flows used in investing activities	*(3,381)*	*(19,136)*	*2,346*	*(8,232)*
Loans received from bank	(217)	(1,229)	-	11,063
Repayment of long-term loans	-	-	(125)	(12,042)
Short-term credit from banks, net	-	-	(1)	1
Repayment of bonds	(1,895)	(10,723)	(1,000)	-
Receipts on account of warrants	-	-	462	-
Purchase of company shares by the company	(38)	(213)	(2,066)	(574)
Bonds issue	-	-	29,606	-
Cash flows provided by (used in) financing activities	*(2,150)*	*(12,165)*	*26,876*	*(1,552)*
Increase (decrease) in cash and cash equivalents	*(5,629)*	*(31,850)*	*24,722*	*(6,085)*
Cash and cash equivalents at beginning of year	*6,940*	*39,267*	*14,545*	*20,630*
Cash and cash equivalents at end of year	*1,311*	*7,417*	*39,267*	*14,545*

(1) See Note 2F.

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

1. Unitronics (1989) (R”G) Ltd. (the "Company") was incorporated in August 1989.

2. The Company designs, develops, manufactures and markets Programmable Logic Controllers - which are specialized computer-based electronic devices used in an automation process to control machinery and other systems, and factory automation software solutions and system integration projects.

3. On November, 1999 the company completed an initial public offering of 1,600,000 ordinary shares on the Euro. NM in Belgium (Euronext).

4. On May, 2004 the company completed a public offering of 800,000 ordinary shares, 35,000,000 convertible bonds and 1,000,000 warrants on the Tel-Aviv stock exchange.

Note 2 - Significant Accounting Policies

A. **Definitions**

1. Subsidiaries - Companies in which the Company holds shares representing in excess of 50% of ownership and voting rights.

2. Related parties - as defined in Opinion No. 29 of the Institute of Certified Public Accountants in Israel (the "Israeli ICPA"), as follows:

   (a) Parties, which either directly or indirectly: (1) owns 10% or more of the issued share capital of the other company, or of its voting rights or of the rights to appoint its directors or; (2) has the right to appoint its Chief Executive Officer (CEO) or; (3) acts as its director or CEO; or
   (b) Any corporate body of which one of the parties mentioned in (a) above, owns 25% or more of the body's issued share capital, or of its voting rights or of the rights to appoint its directors; or
   (c) Spouses and minor children of parties mentioned in (a) above.

3. Interested parties - as defined in the Israeli Securities Law:

   (a) The holder of 5% or more of the issued share capital or of the voting rights of a company, a person who has the right to appoint one or more members of the Board of Directors of the Company or its CEO, a person serving as the CEO or as a member of the Board, an entity in which a person as described above holds 25% or more of its issued share capital or of its voting rights, or has the right to appoint 25% or more of its Board members.
   (b) A subsidiary of a company, other than a nominee company.

4. Israeli CPI - The Consumer Price Index as published by the Central Bureau of Statistics in Israel.

5. NIS - New Israeli Shekel.

6. USD - Dollar of the United States of America.

7. EURO - Pan European currency.

B. **Israeli Generally Accepted Accounting Principles**

The financial statements presented herein have been prepared in conformity with generally accepted accounting principles in Israel ("Israeli GAAP"). As described in Note 25 the company will be required to prepare its financial statements in accordance with IFRS starting from the period commencing on January 1, 2008.

C. **Use of estimates in the preparation of financial statements**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Significant Accounting Policies (cont'd)

D. **Basis of preparation**

1. In the past, the Company prepared its financial statements on the basis of the historical cost convention, adjusted for the changes in the general purchasing power of the Israeli currency based on the changes in the Israeli Consumer Price Index ("Israeli CPI"). These adjusted amounts, as included in the financial statements as at December 31, 2003 (the transition date), served as a starting point for nominal financial reporting beginning January 1, 2004. Additions made after the transition date are included at nominal values.

2. According to Accounting Standard No. 12 with respect to the discontinuance of the adjustment of financial statements ("Standard No. 12"), the adjustment of financial statements for the effects of inflation should be discontinued beginning January 1, 2004. The Company applied the provisions of the Standard, and accordingly, the adjustment for the effects of inflation was discontinued as from January 1, 2004.

3. The amounts for non-monetary assets do not necessarily represent realizable value or current economic value, but only the reported amounts for those assets.

4. In the financial statements "cost" represents cost in the reported amount.

5. Translation of financial statements of foreign operations

   a. On January 1, 2004, Standard No. 13 with respect to the effect of changes in foreign exchange rates became effective ("Standard No. 13"). Standard No. 13 replaces Interpretations No. 8 and No. 9 of Opinion No. 36 of the Institute of Certified Public Accountants in Israel, which were superseded when Accounting Standard No. 12, as described above, became effective.

      Standard No. 13 deals with the translation of foreign currency transactions and with the translation of financial statements of foreign operations for incorporation into the financial statements of the Company.

   b. The amounts in the financial statements of foreign operations that are integral to the operations of the Group companies are translated from foreign currency into Israeli currency as follows: non-monetary items are translated at historical exchange rates, monetary items are translated at the exchange rates as at the balance sheet date and the components of the statement of income are translated at average exchange rates. Differences arising from the translation are included in financial expenses or income.

6. Rate of exchange and linkage base

   a. Assets and liabilities in, or linked to, foreign currency have been stated on the basis of the representative exchange rate prevailing at the balance sheet date as published by the Bank of Israel. Balances linked to the Israeli CPI are stated as per the contractual linkage terms of the specific balance.

      Details of Israeli CPI and the representative exchange rates are as follows:

	December 31, 2007	Change for the year ended December 31, 2007	December 31, 2006	Change for the year ended December 31, 2006	December 31, 2005	Change for the year ended December 31, 2005
Israeli CPI (in points) (*)	191.15	3.40	184.87	(0.10)	185.05	2.38%
Exchange rate of the EURO against the NIS	5.6592	1.71	5.5643	(8.21)	5.4465	(7.32%)
Exchange rate of the USD against the NIS	3.846	(8.97)	4.225	2.16	4.603	6.85%

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

Note 2 - Significant Accounting Policies (cont'd)

D. **Basis of preparation** (cont'd)

6. Rate of exchange and linkage base (cont'd)

   b. Income and expenses in foreign currency have been included in the historical statements of operations under the relevant income and expense item, based on exchange rates prevailing at the date of the transaction.

   c. Exchange rate and linkage differences arising from the adjustment of assets and liabilities which are in foreign currency or linked thereto or which are linked to the Israeli CPI have been included in the historical statements of operations, as incurred.

E. The financial statements are presented in a format which, in management's opinion, reflects the nature of the activities of the Company.

F. **Convenience translation into 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 December 31, 2007 (EURO 1 = NIS 5.6592).

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

G. **Principles of consolidation**

1. The consolidated financial statements include the financial statements of the Company and of its subsidiaries.
2. Inter-company balances and transactions have been eliminated upon consolidation.

H. **Cash and cash equivalents**

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

I. **Marketable securities**

Marketable securities held for a short period of time, which can be realized immediately are presented according to their market value. The changes in the value of marketable securities are charged to the statement of operations when they occur.

J. **Inventory**

General

Since January 1, 2007 the company implements Accounting Standard No. 26 of the Israel Accounting Standards Board - "Inventories" ("the Standard").The Standard applies to all types of inventories, excluding work in progress arising from construction contracts, which is subject to the provisions of Accounting Standard No. 4, "Construction-type Contracts", inventory of buildings for sale, which is subject to the provisions of Accounting Standard No. 2, "Construction of Buildings for Sale" and financial instruments.

The Standard prescribes that inventories should be measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale. The cost of inventories should be determined based on the "first in - first out" (FIFO) method or using weighted average cost, provided that the same method is applied in respect of inventories having a similar nature and use. Measurement of the cost of inventories based on the "last in - first out" (LIFO) method is not permitted.

In accordance with the Standard, when inventories are purchased under credit terms whereby the arrangement involves a financing element, the inventories should be presented at cost reflecting the cash purchase price and the financing element should be recognized as a financial expense over the period of the financing.

Note 2 - Significant Accounting Policies (cont'd)

J. **Inventory** (cont'd)

General (cont'd)
In respect of the allocation of conversion costs to inventories, the Standard prescribes that if in a particular period, production is not at normal capacity, then the cost of inventories should not include allocation of fixed overhead costs in excess of that allocated based on normal capacity. Such unallocated overhead costs should be recognized as an expense in the statement of income in the period in which they are incurred. Furthermore, cost of inventories should not include abnormal amounts of materials, labor and other costs resulting from inefficiency.

When a write-down of inventories has been recognized and subsequently there is an increase in their value, the amount of the write-down is reversed. The amount of the write-down or its reversal should be recorded in cost of sales in the statement of income.

Presentation
Inventory is stated tat the lower of cost or market value.

Cost is determined as follows:
- Raw and packing materials - on a weighted average basis.
- Work in process and finished products on the basis of cost of material, labor and other direct and indirect manufacturing expenses.

K. **Inventory - work in progress and customers' advances**

Work in progress presented at cost, however, not in excess of estimated selling price. Costs include direct identifiable costs and joint indirect costs.

Customers' advances are presented net of the portion included in the statement of operations based on the percentage of completion.

L. **Investment in subsidiaries**

Investment in subsidiaries is stated in the Company's financial statements according to the equity method, i.e.: at the cost of the shares plus post-acquisition gains (losses) as reflected by the subsidiaries financial statements.

M. **Property and equipment**
General
Since January 1, 2007 the company implements Accounting Standard No. 27 of the Israel accounting Standard Board - "Fixed Assets" ("the standard").
The initial recognition of fixed assets will be based on the cost of purchase. After the initial recognition, the Standard enables choosing between the cost method or the reevaluation method as the accounting policy and to apply it consistently with regard to a group of fixed asset items of a similar nature and usage. According to the reevaluation method, fixed assets are to be presented at an amount revalued based on the fair value upon the date of reevaluation less accumulated depreciation and subsequent impairment losses. The revaluation of fixed assets will be carried to capital reserve in shareholders' equity with the deduction of the tax effect. This capital reserve will be carried directly to retained earnings once the asset has been disposed of or during the use of the asset (according to the rate of depreciation). Revalued assets will be depreciated based on the revalued amount.

According to the Standard, each component of fixed assets with a different life and cost that is material in relation to total cost of fixed assets is to be depreciated separately. The asset's depreciation shall be based on its useful life for the Company, which will be tested at year end, and will be discontinued at the earlier of the date of the asset's classification as held for sale or the date of the asset's disposal. An asset held for sale is an asset which is available for immediate sale as is, which the Company has an obligation to sell and in respect of which the sale is expected to be completed within a year from classification. Furthermore, upon the adoption of the Standard, a change in the method of depreciation will be accounted for as a change in accounting estimate, prospectively rather than by way of cumulative effect, as customary prior to the effective date.

Note 2 - Significant Accounting Policies (cont'd)

M. **Property and equipment** (cont'd)

The cost of fixed assets obtained in a swap transaction will be measured at fair value unless the transaction is commercially immaterial or if the fair value of the fixed assets obtained or delivered cannot be reliably measured. The Standard actually replaces the restriction for the measurement of similar assets at fair value with a restriction regarding commercially immaterial transactions. A transaction is commercially material if it leads to a change in amount, timing and risk of future cash flows from the asset.

The cost of fixed assets will also include an initial evaluation of costs of the asset's liquidation and evacuation and restoration of the site on which the asset is located which are undertaken by the Company. The evaluation will be recorded at its present value while using a discount rate reflecting the Company's risk.

<u>Presentation</u>

Property and equipment is stated at cost.
Depreciation is calculated by the straight-line method over the useful lives of the assets as estimated by management.

Annual rates of depreciation are as follows:

	%
Buildings	2
Machinery and equipment	10 - 33
Motor vehicles	15
Office furniture and equipment	6 - 33

Improvements are added to the cost of the asset while the cost of repairs and maintenance are charged to expenses on a current basis.

Financing costs are capitalized to qualified assets according to Accounting Standard No. 3 of the Israel Accounting Standard Board.

N. **Accounting for leases - where the Company is the lessee**

Leases of property and equipment where the Company assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalized at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The rental obligations, net of finance charges, are included in long-term liabilities. The interest element of the finance charge is charged to the statement of operations over the lease period. The property and equipment acquired under finance leasing contracts is depreciated over the useful life of the asset.

O. **Financial Instruments**

The company implements Accounting Standard No.22 of the Israel Accounting Standard Board - "Financial Instruments: Disclosure and Presentation" ("the standard"). The Standard prescribes principles for the presentation of financial instruments and identifies the information that should be disclosed about them in the financial statements. The rules of presentation relate to the classification of a financial instrument or the parts comprising it at the time of initial recognition as a financial liability, asset or capital instrument, the classification of interest, dividends, losses and profits connected with them, and the conditions on the existence of which the financial asset must be set off from the financial liability.

Note 2 - Significant Accounting Policies (cont'd)

P. **Revenue recognition**

General
The company implements Accounting Standard No. 25 of the Israel Accounting Standard Board, "Revenues" ("the Standard"). The Standard deals with the recognition of revenue from three types of transactions: sale of goods, rendering of services and revenue from interest, royalties and dividends and prescribes the criteria for recognition, measurement, presentation and disclosure for each type of revenue.

In addition, according to the standard, the revenues are measured according to the fair value of the return that was received or is expected to be received. In case that the agreement between the parties includes, actually, a credit deal, the fair value of the return will be determined by calculating the present value of the expected cash flow. The difference between the present value as stated above and between the nominal return, will be recorded as an interest income. The calculation of the present value is performed when the credit terms are longer then the regular credit terms.

Recognition
1. Income arising from sale of products is recognized upon delivery to the customer (distributor).

2. Revenues from services are recorded by the accrual method over the period of the service agreement.

3. Revenues from management fees of a building are recorded by the accrual method over the period of the agreement.

4. Revenues from performance contracts are recognized, according to the Accounting Standard No. 4 of the Israeli Accounting Standard Board, on the percentage of completion basis provided that the revenues are fixed or can be reasonably estimated, collection is probable, costs related to performing the work are determinable or can be reasonably determined, there is no substantial uncertainty regarding the ability of the Company to complete the contract and to meet the contractual terms and the percentage of completion can be reasonably estimated. The percentage of completion is determined based on completion of engineering stages of the work. As for contracts in which a loss is anticipated, a provision is recorded for the full amount of the expected loss.

   If all the criteria for recognition of revenue from performance contracts are not met, then revenue is recognized up to the amount of costs incurred whose collection is probable ("zero profit margin" presentation).

Q. **Intangible assets**

Since January 1, 2007, the Company implements Accounting Standard No.13 - intangible assets (hereinafter: "the Standard") of the Israel Accounting Standards Board. The Standard explains the accounting treatment of intangible assets and defines how to measure the book value of these assets, while setting forth the disclosure required. According to the transitory provisions of the Standard, the adoption of the Standard will be done by way of retrospective implementation, excluding those cases below relating to business combinations. The Standard will be applied regarding business combinations which occurred on January 1, 2007 or thereafter, while regarding a research and development project in process, which was acquired in the framework of a business combinations which occurred prior to January 1, 2007, and which meet the definition of an intangible assets on the date of the acquisition, and is recorded as an expense on the acquisition date, the Company will recognize the asset of a research and development project in process on January 1, 2007, while taking into account the related taxes.

The Standard stipulates that an intangible asset will be recognized if, and only if, it is expected that the forecasted future economic benefits, which can be related to the assets, will flow to the entity, and the cost of the asset can be reliably measured.
A research and development asset will be recognized according to the amount estimated on the date of the acquisition less accumulated amortization, if amortized, on the date of the acquisition and until December 31, 2006, in accordance with the useful life of the asset, and less losses from any impairment in value accrued. The adjusted amount will be posted to retained earnings as at January 1, 2007.

Note 2 - Significant Accounting Policies (cont'd)

Q. **Intangible assets** (cont'd)

As a result of adopting the Standard, the intangible asset was recognized during the year of report for costs of development of NIS 7,625 thousand (Euro 1,347 thousands), for which the conditions for recognizing an intangible asset existed.

In addition, as a result of adopting the Standard, software and licenses from the fixed assets, net, clause have been reclassified to the 'other assets and deferred expenses, net' clause of NIS 557 thousand (Euro 98 thousands) on January 1, 2007.

R. **Provision for doubtful accounts**

The provision for doubtful accounts is computed on an account-by-account basis.

S. **Impairment of fixed and intangible assets**

The Company applies Accounting Standard No. 15, "Impairment of Assets". The Standard applies to the assets included in the balance sheet other than inventories, assets arising from construction contracts, assets arising from employee benefits, deferred tax assets and financial assets (with the exception of investments in affiliates). According to the Standard, whenever there is an indication that an asset may be impaired, the Company should determine if there has been an impairment of the asset by comparing the carrying amount of the asset to its recoverable amount. The recoverable amount is the higher of an asset's net selling price or value in use, which is determined based on the present value of estimated future cash flows expected to be generated by the continuing use of an asset and by its disposal at the end of its useful life. If the carrying amount of an asset exceeds its recoverable amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. An impairment loss recognized should be reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the impairment loss was recognized.

T. **Taxes on income**

General
The company Implements Accounting Standard No.19 of the Israeli Accounting Standard Board - "Taxes on Income" ("the standard"). The standard determines the rules for the recognition, measurement, presentation and the disclosure of taxes on income and deferred taxes in the financial statements.

Deferred income taxes
Deferred income taxes are computed in respect of temporary differences between the amounts included in these financial statements and those to be considered for tax purposes. Deferred taxes are computed at the enacted tax rates expected to be in effect, according to management's estimation, at the time when these taxes will be released to the statement of operations. Deferred tax assets are provided for when it is probable that all or part of the deferred tax assets will be realized in the foreseeable future.

U. **Profit per share**

The company implements Accounting Standard No. 21 of the Israel Accounting Standard Board - "Earnings per Share" ("the Standard"), which prescribes the principles for the computation and presentation of earnings (loss) per share in the financial statements.

According to the Standard, earnings per share are to be computed based on the number of ordinary shares. Basic earnings per share are to include only shares which are outstanding during the period whereas convertible securities (such as convertible bonds and warrants) are to be included in the computation of diluted earnings per share.

Note 2 - Significant Accounting Policies (cont'd)

U. **Profit per share** (cont'd)

In addition, convertible securities which had been converted during the period, are to be included in diluted earnings per share up to the date of conversion and are to be included in basic earnings per share from that date. Pursuant to the Standard, warrants will be included in diluted earnings where their exercise results in the issuance of shares for a consideration which is less than the market price of the shares. The amount of dilution is the market price of the shares less the amount that would have been received as a result of the conversion of the options into shares. The company's share of earnings of a subsidiary is to be included based on the company's share in the earnings per share of the subsidiary multiplied by the number of shares held by the company.

V. **Share-Based Payment**

The company implements Accounting Standard No. 24 of the Israel Accounting Standard Board, "Share-Based Payment" ("the Standard"). The Standard prescribes principles of measurement and specifically requires for three types of share-based payment transactions:

a. Share-based payment transactions which will be settled in equity instruments.
b. Share-based payment transactions which will be settled in cash.
c. Share-based payment transactions which the entity or the other party can determine the way it will be settled.

The Standard requires the recognition in the financial statements of share based payment transactions, including transactions with employees or other parties which must be settled in cash, in other assets or capital instruments. As a result, inter alia, expenses for granting shares and options to employees will be recorded over the vesting period of those grants, based on the fair value of every grant, on the date of its granting. The Standard determines rules of measurement and specific requirements, for share based payment transactions on settled with capital instruments, for share-based payment transactions settled with cash and transactions in which the terms of the arrangement enable one of the parties to choose between settling the transaction in cash and settling it with capital instruments.
Furthermore, the Standard sets forth various disclosure requirements regarding share-based payment arrangements.

W. **Presentation of transactions between company and controlling shareholder**

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

The object of the Standard is to determine the accounting treatment of transactions between an entity and a controlling shareholder in it, apart from a transaction of a business combination under the same control, witch the accounting treatment will continue to base on the book value in the controlling shareholder's books.

The Standard stipulates that assets and liabilities for which a transaction was executed between an entity and a controlling shareholder in it will be measured on the date of the transaction according to their fair value and the difference between the fair value and the consideration determined in the transaction will be posted to shareholders' equity. A debit difference is in effect a dividend, and therefore, reduces retained earnings. A credit difference is in effect a shareholders' investment and will be presented in a separate item in shareholders' equity to be called "capital reserves from a transaction between an entity and a controlling shareholder in it".

The amount posted to shareholders' equity in accordance with the Standard will not be posted to the statement of income even if during later periods, the items that were the subject of transactions between the entity and the controlling shareholder in it are removed from the financial statements.

The provisions of Accounting Standard No. 19 stipulate that current taxes and deferred taxed will be posted to shareholders' equity if the tax relates to items posted directly to shareholders' equity. Therefore, in a transaction between an entity and a controlling shareholder in it, the tax effect will be deducted from the amount posted to shareholders' equity.

Note 2 - Significant Accounting Policies (cont'd)

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

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

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

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

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

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

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

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

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

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

There are differences between IFRS and Israeli GAAP in the recognition and measurement of assets and liabilities and in reporting and disclosure requirements.

See also note 25 - Disclosure regarding the adoption of International Financial Reporting Standards (IFRS).

Note 3 - Cash and cash equivalents

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

	December 31, 2007	*December 31, 2007*	*December 31, 2006*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Israeli currency	680	3,850	27,432
Foreign currency	2,162	12,235	12,474
	2,842	*16,085*	*39,906*

Unitronics (1989) (R"G) Ltd.
Company

	December 31, 2007	*December 31, 2007*	*December 31, 2006*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Israeli currency	674	3,815	27,322
Foreign currency	637	3,602	11,945
	1,311	*7,417*	*39,267*

Note 4 - Marketable securities

Unitronics (1989) (R"G) Ltd.
Consolidated and company

	December 31, 2007	*December 31, 2007*	*December 31, 2006*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
NIS bonds			
Linked to Israeli CPI	4,599	26,025	15,794
Linked to USD	1,326	7,503	3,095
Unlinked	899	5,089	4,687
USD bonds	-	-	6,814
	6,824	*38,617*	*30,390*

Note 5 - Accounts receivable - trade

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

	December 31, 2007	*December 31, 2007*	*December 31, 2006*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Related to work in progress in connection with long-term contracts (*):			
Open accounts	946	5,353	3,665
Income receivable	432	2,447	7,168
	1,378	7,800	10,833
Others:			
Open accounts	1,094	6,191	5,270
Post-dated checks receivable	6	36	24
	1,100	6,227	5,294
	2,478	14,027	16,127
Provision for doubtful accounts	(5)	(32)	(452)
	2,473	*13,995*	*15,675*
(*) Recognized revenues related to work in progress	7,353	41,613	40,370
Less amounts received from customers in respect of work in progress	6,102	34,531	30,108
	1,251	7,082	10,262
VAT related to open accounts	127	718	571
	1,378	*7,800*	*10,833*
The contracts amounts signed during the period	*3,207*	*18,151*	*35,847*
Balance of contracts amounts where revenues were not recognized	*141*	*800*	*20,100*

Note 5 - Accounts receivable - trade (cont'd)

Unitronics (1989) (R"G) Ltd.
Company

	December 31, 2007	*December 31, 2007*	*December 31, 2006*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Related to work in progress in connection with long-term contracts (*):			
Open accounts	946	5,353	4,985
Income receivable	432	2,447	5,082
	1,378	7,800	10,067
Others:			
Open accounts	814	4,605	3,678
Post-dated checks receivable	6	36	24
	820	4,641	3,702
	2,198	12,441	13,769
Provision for doubtful accounts	-	-	(394)
	2,198	*12,441*	*13,375*
(*) Recognized revenues related to work in progress	7,027	39,770	39,493
Less amounts received from customers in respect of work in progress	5,776	32,688	30,174
	1,251	7,082	9,319
VAT related to open accounts	127	*718*	*748*
	1,378	*7,800*	*10,067*
The contracts amounts signed during the period	*3,207*	*18,151*	*32,788*
Balance of contracts amounts where revenues were not recognized	*141*	*800*	*17,806*

Note 6 - Accounts receivable - other

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

	December 31, 2007	*December 31, 2007*	*December 31, 2006*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Government institutions	1	7	415
Prepaid expenses	-	-	52
Others	31	173	99
	32	*180*	*566*

Note 6 - Accounts receivable - other (cont'd)

Unitronics (1989) (R"G) Ltd.
Company

	December 31, 2007	*December 31, 2007*	*December 31, 2006*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Government institutions	-	-	387
Subsidiaries	1,624	9,192	7,076
Prepaid expenses	-	-	52
Others	6	35	34
	1,630	*9,227*	*7,549*

Note 7 - Inventory

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

	December 31, 2007	*December 31, 2007*	*December 31, 2006*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Raw and packing materials	979	5,538	7,141
Work in process	670	3,791	3,488
Finished products	645	3,652	3,034
	2,294	*12,981*	*13,663*

Unitronics (1989) (R"G) Ltd.
Company

	December 31, 2007	*December 31, 2007*	*December 31, 2006*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Raw and packing materials	979	5,538	7,141
Work in process	670	3,791	3,488
Finished products	478	2,706	2,425
	2,127	*12,035*	*13,054*

Note 8 - Inventory - work in progress

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

	December 31, 2007	December 31, 2007	December 31, 2006
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Cost of work performed	7,488	42,375	34,278
Less amounts charged to statements of operations	7,432	42,056	34,084
	56	*319*	*194*

Unitronics (1989) (R"G) Ltd.
Company

	December 31, 2007	December 31, 2007	December 31, 2006
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Cost of work performed	6,287	35,580	33,964
Less amounts charged to statements of operations	6,231	35,261	33,535
	56	*319*	*429*

Note 9 - Investment in subsidiaries

A. Details of the subsidiaries, their activities and the rate of holdings therein as at December 31, 2007 and 2006:

1. Unitronics Inc. (hereinafter "Unitronics U.S.A").
The company holds 100% of the equity and control of Unitronics U.S.A. Unitronics U.S.A was established in the United States of America in 2001 by the company in order to further the marketing, sale and distribution of its range of products in the U.S.A. Unitronics U.S.A commenced its operations in June 2001. In 2006 Unitronics U.S.A. started to operate in the projects area.

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

B. Composition

Unitronics (1989) (R"G) Ltd.
Company

	December 31, 2007	December 31, 2007	December 31, 2006
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Cost of shares	- (*)	1	1
Company's share of losses	(1,104)	(6,248)	(4,206)
Long term loan to related party	*1,414*	*8,000*	-
	310	*1,753*	*(4,205)*
Presented in investments in subsidiaries	*320*	*1,809*	*55*
Presented in long term liabilities	*(10)*	*(56)*	*(4,260)*

(*) Less than EURO 1,000.

Note 10 - Property and equipment

Unitronics (1989) (R"G) Ltd. Consolidated	*Land and Buildings (*)*	*Machinery and Equipment*	*Motor vehicles*	*Office furniture and Equipment*	*Total*
			Reported NIS in thousands		
Cost					
Balance as at January 1, 2007	*20,882*	*5,215*	*805*	*1,803*	*28,705*
Additions	290	1,489	-	217	1,996
Disposals	-	(1,432)	-	(92)	(1,524)
Balance as at December 31, 2007	*21,172*	*5,272*	*805*	*1,928*	*29,177*
Accumulated depreciation					
Balance as at January 1, 2007	*2,154*	*3,310*	*276*	*946*	*6,686*
Depreciation during the year	603	921	121	153	1,798
Disposals	-	(1,432)	-	(92)	(1,524)
Balance as at December 31, 2007	*2,757*	*2,799*	*397*	*1,007*	*6,960*
Net book value as at December 31, 2007	*18,415*	*2,473*	*408*	*921*	*22,217*
Net book value as at December 31, 2006	*18,728*	*1,905*	*529*	*857*	*22,019*

Unitronics (1989) (R"G) Ltd. Consolidated	**Convenience translation into Euro, (unaudited)**				
	Land and Buildings(*)	*Machinery and Equipment*	*Motor vehicles*	*Office furniture and Equipment*	*Total*
			(in thousands)		
Cost					
Balance as at January 1, 2007	*3,690*	*922*	*142*	*319*	*5,073*
Additions	52	263	-	38	353
Disposals	-	(253)		(16)	(269)
Balance as at December 31, 2007	*3,742*	*932*	*142*	*341*	*5,157*
Accumulated depreciation					
Balance as at January 1, 2007	*381*	*585*	*49*	*167*	*1,182*
Depreciation during the year	107	163	21	27	318
Disposals	-	(253)	-	(16)	(269)
Balance as at December 31, 2007	*488*	*495*	*70*	*178*	*1,231*
Net book value as at December 31, 2007	*3,254*	*437*	*72*	*163*	*3,926*

(*) Includes specific capitalized financing costs (NIS 1,015 thousand, EURO 179 thousand, as at December 31, 2006 and 2007), which was capitalized until the company populated the building on November 17, 2002. The building is located in Kiriat Sde Hateufa, on land leased from the government (Minhal). The land is leased for a period of 49 years and has been capitalized (91%). To the date of this report the leased rights have not yet been registered in the company's name.

Note 10 - Property and equipment (cont'd)

Unitronics (1989) (R"G) Ltd. Company	*Land and Buildings (*)*	*Machinery and Equipment*	*Motor vehicles*	*Office furniture and Equipment*	*Total*
	Reported NIS in thousands				
Cost					
Balance as at January 1, 2007	*20,882*	*5,215*	*805*	*1,496*	*28,398*
Additions	290	1,489	-	177	1,956
Disposals	-	(1,432)	-	(92)	(1,524)
Balance as at December 31, 2007	*21,172*	*5,272*	*805*	*1,581*	*28,830*
Accumulated depreciation					
Balance as at January 1, 2007	2,154	3,310	276	816	6,556
Depreciation during the year	603	921	121	98	1,743
Disposals	-	(1,432)	-	(92)	(1,524)
Balance as at December 31, 2007	*2,757*	*2,799*	*397*	*822*	*6,775*
Net book value as at December 31, 2007	*18,415*	*2,473*	*408*	*759*	*22,055*
Net book value as at December 31, 2006	*18,728*	*1,905*	*529*	*680*	*21,842*

Unitronics (1989) (R"G) Ltd. Company	**Convenience translation into Euro, (unaudited)**				
	Land and Buildings(*)	*Machinery and Equipment*	*Motor vehicles*	*Office furniture and Equipment*	*Total*
	(in thousands)				
Cost					
Balance as at January 1, 2007	*3,690*	*922*	*142*	*264*	*5,018*
Additions	52	263	-	31	346
Disposals	-	(253)	-	(16)	(269)
Balance as at December 31, 2007	*3,742*	*932*	*142*	*279*	*5,095*
Accumulated depreciation					
Balance as at January 1, 2007	*381*	*585*	*49*	*144*	*1,159*
Depreciation during the year	107	163	21	17	308
Disposals	-	(253)	-	(16)	(269)
Balance as at December 31, 2007	*488*	*495*	*70*	*145*	*1,198*
Net book value as at December 31, 2007	*3,254*	*437*	*72*	*134*	*3,897*

(*) Includes specific capitalized financing costs (NIS 1,015 thousand, EURO 179 thousand, as at December 31, 2005 and 2006), which was capitalized until the company populated the building on November 17, 2002. The building is located in Kiriat Sde Hateufa, on land leased from the government (Minhal). The land is leased for a period of 49 years and has been capitalized (91%). To the date of this report the leased rights have not yet been registered in the company's name.

Note 11 - Other assets and deferred expenses, net

Unitronics (1989) (R"G) Ltd.
Consolidated and Company

	December 31, 2007	*December 31, 2007*	*December 31, 2006*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Patents and Licenses	26	145	193
Software	114	645	557
Deferred development expenses	1,347	7,625	-
	1,487	*8,415*	*750*

Note 12 - Current maturities of long-term liabilities

Unitronics (1989) (R"G) Ltd.
Consolidated and Company

	December 31, 2007	*December 31, 2007*	*December 31, 2006*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Current maturities of long-term loan	189	1,070	1,110
Current maturities of long-term bonds	1,892	10,705	10,610
	2,081	*11,775*	*11,720*

Note 13 - Accounts payable - trade

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

	December 31, 2007	December 31, 2007	December 31, 2006
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Suppliers	1,990	11,261	8,485
Post-dated checks payable	242	1,369	3,627
	2,232	*12,630*	*12,112*

Unitronics (1989) (R"G) Ltd.
Company

	December 31, 2007	December 31, 2007	December 31, 2006
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Suppliers	1,953	11,053	8,270
Post-dated checks payable	242	1,369	3,627
	2,195	*12,422*	*11,897*

Note 14 - Accounts payable - other

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

	December 31, 2007	December 31, 2007	December 31, 2006
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Employees, payroll and taxes	469	2,654	2,553
Government institutions	66	373	-
Provision for vacation	76	429	387
Accrued expenses	660	3,737	8,269
Customers' advances	35	198	235
Prepaid income	82	465	-
	1,388	*7,856*	*11,444*

Note 14 - Accounts payable - other (cont'd)

Unitronics (1989) (R"G) Ltd. Company	December 31, 2007	December 31, 2007	December 31, 2006
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Employees, payroll and taxes	465	2,634	2,542
Government institutions	66	373	-
Provision for vacation	76	429	387
Accrued expenses	625	3,539	7,776
Consolidated company	-	-	24
Customers' advances (*)	32	182	218
Prepaid income	67	377	-
	1,331	*7,534*	*10,947*

Note 15 - Long term loans

A. Consisting of the following:

Unitronics (1989) (R"G) Ltd. Consolidated and Company	Annual Interest Rates %	December 31, 2007	December 31, 2007	December 31, 2006
			(in thousands)	
		Convenience translation into EURO, (unaudited)	Reported NIS	
Long-term bank debt				
Linked to the USD	Libor+2.02	924	5,222	5,072
Linked to the EURO	Libor+2.02	740	4,196	5,650
Less current maturities		(167)	(942)	(974)
		1,497	*8,476*	*9,748*
Long-term debt from others				
Motor vehicles lessors - linked to the Israeli CPI	5.73 - 8.5	41	230	366
Less current maturities		(22)	*(128)*	(136)
		19	*102*	*230*
		1,516	*8,578*	*9,978*

Note 15 - Long term debt (cont'd)

B. Aggregate maturities are as follows:

Unitronics (1989) (R"G) Ltd.
Consolidated and Company

	December 31, 2007	*December 31, 2007*	*December 31, 2006*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Second year	185	1,045	1,100
Third year	166	942	1,079
Fourth year	166	942	974
Fifth year	166	942	974
Sixth year and thereafter	833	4,707	5,851
	1,516	*8,578*	*9,978*

Note 16 - Bonds (consolidated and company)

A. Convertible Bonds

1. Convertible Euro bonds, at a subscription price of 4.73 Euro per bond.
   The bonds bear interest of 8.13% per annum. Commencing May 2006, the bonds debt will be repaid in 10 quarterly installments.

2. During May 2004 the company issued a series of convertible bonds (series 1) totaling par value NIS 35 million of NIS 0.02 par value each one (in exchange for 95% of their par value) which are repayable in 4 yearly equivalent installments beginning May 23, 2007. The bonds are linked to the prevailing rate of exchange of the dollar and bear interest of Libor for six months plus 2.5% per annum. The effective interest - Libor plus 3.55%.

   The bonds may be converted to ordinary shares from the date of registration for trade on the Stock Exchange until May 9, 2010. Each NIS 9 par value of bond may be converted into 1 ordinary share of the company.

3. Consisting of the following:

Unitronics (1989) (R"G) Ltd.
Consolidated and company

	December 31, 2007	*December 31, 2007*	*December 31, 2006*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Bonds linked to USD (see 2 above)	4,639	26,250	35,000
Bonds in EURO (see 1 above)	345	1,955	3,803
	4,984	28,205	38,803
Less discount, net	(276)	(1,564)	(2,862)
	4,708	26,641	35,941
Less current maturities	(1,892)	(10,705)	(10,610)
	2,816	15,936	25,331

Note 16 - Bonds (consolidated and company) (cont'd)

A. Convertible Bonds (cont'd)

4. Aggregate maturities are as follows:

Unitronics (1989) (R"G) Ltd.
Consolidated and Company

	December 31, 2007	December 31, 2007	December 31, 2006
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Current maturities	1,892	10,705	10,610
Second year	1,546	8,750	10,693
Third year	1,546	8,750	8,750
Fourth year	-	-	8,750
	4,984	*28,205*	*38,803*

B. Bonds

1. On August, 2006 the company issued a series of bonds at the amount of NIS 34 million (in exchange for 94% of their par value) payable in 5 equal payments starting at August 25, 2009.The bonds are linked to the Israeli CPI and bear fixed interest of 6.1% per annum. The effective interest - 9.57%.

2. Consisting of the following:

Unitronics (1989) (R"G) Ltd.
Consolidated and company

	December 31, 2007	December 31, 2007	December 31, 2006
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Bonds linked to the Israeli CPI	6,069	34,349	34,000
Less discount, net	(602)	(3,408)	(4,141)
	5,467	*30,941*	*29,859*

3. Aggregate maturities are as follows:

Unitronics (1989) (R"G) Ltd.
Consolidated and Company

	December 31, 2007	December 31, 2007	December 31, 2006
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Second year	1,214	6,870	-
Third year	1,214	6,870	6,800
Fourth year	1,214	6,870	6,800
Fifth year	1,214	6,870	6,800
Sixth year and thereafter	1,213	6,869	13,600
	6,069	*34,349*	*34,000*

Note 17 - Accrued severance pay, net

Under Israeli law and labor agreements, the Company is required to make severance payments to its dismissed employees and employees leaving employment under certain other circumstances.

The Company's severance pay liability to its employees, calculated on the basis of the employee's latest monthly salary multiplied by the number of years of employment, and which is not covered by insurance policies, is reflected in the Company's balance sheet on the accrual basis.

The amounts deposited in insurance policies are not included in the balance sheet, since they are not under the control and management of the Company.

The outstanding liability and amounts funded at central approved severance pay funds as at balance sheet date are as follows:

Unitronics (1989) (R"G) Ltd.
Consolidated and Company

	December 31, 2007	*December 31, 2007*	*December 31, 2006*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Accrued severance pay	647	3,664	3,345
Less - amounts funded	374	2,118	1,717
	273	*1,546*	*1,628*

Note 18 - Contingent Liabilities, Mortgages and guarantees

A. Contingent liabilities

The Company is committed to pay royalties to the Government of Israel on proceeds from sales of products funded in part, by Government grants. At the time the grants were received, successful development of the related projects was not assured. The royalty rates vary from 2% to 5% of gross sales of a product or development resulting from the research. Royalties are payable up to 100% of the amount of such grants. The contingent liability in respect of royalties to the Government at December 31, 2006 amounts to NIS 610 thousands (EURO 108 thousands). Relating to projects that the company's management assumes royalties payments.

B. Mortgages and guarantees

In order to secure the company's liability in respect of financial leasing, the rights to the leased cars were lined to the leasing companies. Furthermore, in order to secure the company's liabilities to the bank, the company mortgaged with a first fixed and floating charge the building, notes, documents and securities deposited or which will be deposited in the bank. Similarly a first charge was placed on guarantees given to the company. Additionally, in order to secure an implementation of projects the company gave guarantees to customers in the total amount of NIS 62 thousands (EURO 11 thousands).

Note 19 - Share Capital

A. Composition

	Number of shares, (audited) *December 31, 2007 and 2006*	
	Authorized	Issued and fully paid
Ordinary shares of NIS 0.02 each	100,000,00 0	11,676,546

Note 19 - Share Capital (cont'd)

B. Option plan

The Company maintains three share option plans (1999, 2001 and 2003 Share Option Plans), pursuant to which share options in the Company may be granted to employees, officers, directors and consultants of the Company or its subsidiaries. Pursuant to the 1999, 2001 and 2003 Option Plans, 440,000, 950,000 and 1,000,000 ordinary shares were reserved, respectively, for issuance under these plans.

Under the option plans, the exercise price of options shall be determined by the board of directors, according to the option plans terms. The vesting schedule of the options is also determined by the board of directors. The options vest either immediately, or over a period of between one to four years and are typically exercisable for a period of four to five years. The 1999, 2001 and 2003 Option Plans expire in the years 2009, 2011 and 2013 respectively.

As at the date of publishing the financial statements, all options under 1999 and 2001 plans were expired.

712,000 options have been granted under the 2003 option plan. 290,000 options under the 2003 option plan were expired as at December 31, 2007 accordingly to the options term, without exercise. From the expired options under 2003 option plan, 10,000 options have been granted to an outside director. These options exercisable at a price of EURO 1 till May 2009, without maturity period. 422,000 options under the 2003 option plan exercisable at price of Euro 1.3.

C. The company issued a series of 600 thousands warrants, which can be exercised to ordinary shares of 0.02 NIS in a way that any warrant can be exercised to one ordinary share at respective price of NIS 5.00, the amount is linked to the Israeli CPI. The warrants can be exercised since the day it was listed to trade until August 24, 2010.

In addition, the company issued bonds (series 2), see Note 16B.

The gross amount raised amounted to approximately NIS 30 million (NIS 462 thousands relate to the warrants).

D. Since August 2005 the company purchases, from time to time, shares of the company in the Tel Aviv stock exchange. As at December 31, 2007 the company holds 612,969 shares - 5.3% of the company's issued share capital, which was purchased in a sum of NIS 2,853 thousands (Euro 505 thousands).

E. In April, 2007 the company granted 210,000 options to a consultant. The vesting dates of 105,000 options ("the first options") are September 1, 2007, 2008 and 2009 in equal settlements. The vesting dates of additional 105,000 options ("the additional options") are September 1, 2008, 2009 and 2010 in equal settlements. The first options can be exercised till August 31, 2010 and the additional options can be exercised till August 31, 2011. The options are exercisable at a price of Euro 1.30. The economic value of the options at the grant day according to B&S model is NIS 5 thousands.

Note 20 - Statements of Operations Data

A. Principal customers

The revenues include revenues from principal customers (which each one constitutes in excess of 10% of the revenues of the Company):

Unitronics (1989) (R"G) Ltd. Consolidated and Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Customer A	134	759	478	8,364
Customer B	1,827	10,342	796	16,274
Customer C	599	3,391	16,042	5,452

B. Cost of revenues

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Materials consumed and subcontractors	9,103	51,519	46,346	43,464
Payroll and related benefits	2,148	12,156	10,540	8,296
Changes in work in process and finished products	(164)	(929)	(598)	108
Depreciation	191	1,083	914	786
Management and maintenance costs	143	809	642	638
Other expenses	1,087	6,149	4,332	2,596
	12,508	*70,787*	*62,176*	*55,888*

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Materials consumed and subcontractors	8,790	49,746	45,768	43,464
Payroll and related benefits	2,148	12,156	10,540	8,296
Changes in work in process and finished products	(103)	(582)	(209)	87
Depreciation	191	1,083	914	786
Other expenses	1,087	6,149	4,332	2,596
	12,113	*68,552*	*61,345*	*55,229*

Note 20 - Statements of Operations Data (cont'd)

C. Development expenses, net

Unitronics (1989) (R"G) Ltd. Consolidated and Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Payroll and related benefits	1,130	6,395	5,726	3,837
Subcontractors	79	447	464	286
Other expenses	414	2,345	2,331	1,670
Less - government participation	-	-	-	(40)
Less - capitalized expenses	(1,347)	(7,625)	-	-
	276	*1,562*	*8,521*	*5,753*

D. Selling and marketing expenses

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Salaries and related benefits	1,061	6,005	5,021	4,506
Travel and marketing abroad	79	445	552	556
Exhibits, advertising and other expenses	1,246	7,052	5,397	4,597
	2,386	*13,502*	*10,970*	*9,659*

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Salaries and related benefits	843	4,772	4,037	3,649
Travel and marketing abroad	79	445	552	556
Exhibits, advertising and other expenses	795	4,498	3,295	2,644
	1,717	*9,715*	*7,884*	*6,849*

Note 20 - Statements of Operations Data (cont'd)

E. General and administrative expenses

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	***2007***	***2006***	***2005***
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Salaries and related benefits	456	2,582	2,532	2,854
Office rent, maintenance and communications	75	422	402	438
Depreciation	86	488	464	294
Professional services	419	2,370	2,221	2,041
Bad and doubtful debts	4	25	-	229
Others	141	795	483	446
	1,181	*6,682*	*6,102*	*6,302*

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	***2007***	***2006***	***2005***
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Salaries and related benefits	456	2,582	2,532	2,854
Office rent, maintenance and communications	18	100	92	112
Depreciation	76	432	411	249
Professional services	378	2,141	2,006	1,750
Bad and doubtful debts		-	-	193
Others	124	698	380	308
	1,052	*5,953*	*5,421*	*5,466*

Note 20 - Statements of Operations Data (cont'd)

F. Financing expenses, net

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

	For the year ended December 31,	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	Reported NIS		
Financing cost relating to bonds	1,261	7,138	5,320	3,333
Loss (profit) from marketable securities, net	(224)	(1,270)	(770)	(2,425)
Loss (gain) on cash and cash equivalents and bank deposits	(13)	(75)	(718)	95
Financing cost relating to long term debt	66	372	334	1,021
Others	155	881	661	487
	1,245	*7,046*	*4,827*	*2,511*

Unitronics (1989) (R"G) Ltd.
Company

	For the year ended December 31,	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	Reported NIS		
Financing cost relating to bonds	1,261	7,138	5,320	3,333
Loss (profit) from marketable securities, net	(224)	(1,270)	(770)	(2,425)
Loss (gain) on cash and cash equivalents and bank deposits	(13)	(75)	(718)	95
Financing cost relating to long term debt	66	372	334	1,021
Others	76	435	401	270
	1,166	*6,600*	*4,567*	*2,294*

Note 20 - Statements of Operations Data (cont'd)

G. Transactions with interested and related parties

1. Statements of operations include transactions with interested and related parties as follows:

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Salaries and related benefits (*)	296	1,673	1,736	2,177
Directors' remuneration (**)	14	81	84	107
Rental expenses	73	413	427	255

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Sales revenues	2,272	12,858	9,200	6,680
Salaries and related benefits (*)	296	1,673	1,736	2,177
Directors' remuneration (**)	14	81	84	107
Rental expenses	73	413	427	255
Electricity and maintenance to Unitronics building	93	527	530	439
Financing revenue (expenses)	-	-	-	312
(*) Number of recipients	2	2	2	2
(**) Number of recipients	3	3	3	3

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

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

4. In April 2005 the general meeting of the company's shareholders approved to grant Mr. Haim Shani - the Company's Chief Executive Officer and chairman of the board of directors (hereinafter: "Mr. Shani"), an annual bonus in respect of each calendar year beginning on 2005 and as long as he serves as the Company's CEO (the "Future Bonus"), at a rate of 7.5% of the Company's profit before taxes.

5. The company granted options to an external director. See also Note 19B.

6. Since August 2004 the company leases approx. 196 square meters in Unitronics house from an interested

party, in August 2005 the tenancy agreement was expanded by an additional 436 square meters.

Note 21 - Taxes on Income

A. Measurement of results for tax purposes under the Income Tax Law (Adjustments for Inflation) - 1985 (the “Inflationary Adjustments Law”).

The Income Tax Law (Adjustments for Inflation) - 1985, which is in effect since 1985, provides for the measurement of a company’s operating results on a “real” (non-inflationary) basis in accordance with the changes in the Israeli CPI. The Inflationary Adjustments Law was expired on January 1, 2008.

B. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969.

The Company currently qualifies as an “Industrial Company” under the above law. As such, it is entitled to certain tax benefits, mainly the right to deduct share issuance costs for tax purposes in the event of a listing in a stock exchange, and to amortize know-how acquired from third parties.

C. On July 25, 2005 an adjustment to the income tax ordinance (No. 147) 2005, was approved by the government. This adjustment reduces the tax rates as follows: 2007 - 29%, 2008 - 27%, 2009 - 26% 2010 and forward - 25%.

D. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereafter - “the Law”).

1. On November 1999 the Company filed an application for Approved Enterprise status, with respect to investments in developing Internet based Programmable Logic Controllers. The Company has applied to participate in the Alternative Benefit Program under which a full tax exemption is available on its taxable profits attributable to the specific program approved during the first 2 years of the Benefit Period, as well as a Company Tax rate of 25% during the 5 years thereafter. The application was approved on June 2000. Tax benefits resulting from the additional approved enterprise status will be calculated in respect of the increase in sales compared to the base year (as defined by the Law for the Encouragement of Capital Investments). Income derived by the Company from sources other than the program granted the status of Approved Enterprise, as well as income derived after the end of the benefits period, is subject to regular Company Tax. Dividends paid out of income that derived from an “approved enterprise” are subject to a reduced income tax rate of 15%. The period of tax benefits, detailed above, is subject to a time limit of the earlier of 12 years from the commencement of production, or 14 years from receiving the approval.
   In the event of a distribution of cash dividends from income which is tax exempt due to the above, the Company would have to pay Company tax at the rate of 25% on the amount distributed.

2. On October 2000 the company filed an addition to the above approved enterprise program. The addition was approved on January 2003. Tax benefits resulting from the additional approved enterprise status are similar to the original approved enterprise program.

3. On April 22, 2003 the Company has submitted a final report regarding the execution of the approved enterprise program and its additions. The approved enterprise program and its addition were approved on February 2004.

4. The base year for the tax benefits period under the first program is 1999, and under the second program is 2004. No tax benefits have been used under both programs.

Note 21- Taxes on Income (cont'd)

E. The taxes on income consist of the following:

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Deferred taxes	-	-	85	35
Taxes on income	-	-	-	2
	-	-	*85*	*37*

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Deferred taxes	-	-	*85*	*35*

F. A reconciliation of the theoretical tax expenses, assuming all income is taxed at the Israeli statutory rate is as follows:

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Profit (loss) before taxes on income	490	2,774	2,208	661
Tax rate (%)	29	29	31	34
Theoretical tax	142	804	684	225
Increase in taxes resulting from non-deductible expenses	23	131	168	104
Temporary differences where deferred taxes were not recognized	(197)	(1,115)	(1,028)	(443)
Additional tax in respect of other differences	32	180	261	151
	-	-	*85*	*37*

Note 21 - Taxes on Income (cont'd)

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
		(in thousands)		
	Convenience translation into EURO, (unaudited)		**Reported NIS**	
Profit (loss) before taxes on income	851	4,816	3,019	1,904
Tax rate (%)	29	29	31	34
Theoretical tax	247	1,397	936	647
Increase in taxes resulting from non-deductible expenses	23	131	168	104
Temporary differences where deferred taxes were not recognized	(302)	(1,708)	(1,280)	(867)
Additional tax in respect of other differences	32	180	261	151
	-	-	*85*	*35*

G. Deferred taxes

Changes:

Unitronics (1989) (R"G) Ltd. Consolidated and company	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
		(in thousands)		
	Convenience translation into EURO, (unaudited)		**Reported NIS**	
Balance beginning of year	-	-	85	120
Changes during the year	-	-	(85)	(35)
Balance end of year	-	-	-	*85*

H. Final tax assessments
The Company has final tax assessments for all years up to December 31, 2003.

I. Tax loss carry forward
As at December 31, 2007 the company's tax loss carry forward where deferred taxes were not recognized, amounts to approximately NIS 19,000 thousands (EURO 3,357 thousands).

Note 22 - Business and geographical segments

1. General

A. The company and its subsidiaries operate in two main business segments.
- Programmable Logic Controllers systems (hereinafter “The products segment").
- System integration projects (hereinafter “The system integration projects segment").

B. Part of the revenues and expenses are allocated directly to the business segments. Expenses, which relate to both segments, are allocated to the segments on a reasonable basis.

C. The segment assets includes all the operation assets which the segment is using and contain especially accounts receivable trade and inventory. The segment liabilities includes all the operation liabilities which relate to the segment especially accounts payable trade and other and accrued severance pay, net.

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

2. Primary report on business segments

A. Revenues

Unitronics (1989) (R”G) Ltd.
Consolidated

	For the year ended December 31,	***For the year ended December 31,***		
	2007	***2007***	***2006***	***2005***
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Products	10,609	60,041	53,711	37,201
System integration projects	7,353	41,613	40,370	42,862
Other	124	699	700	711
	18,086	*102,353*	*94,781*	*80,774*

Note 22 - Business and geographical segments (cont'd)

2. Primary report on business segments (cont'd)

B. Segment results and adjustment to the profit

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
	(in thousands)			
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Products	2,975	16,836	17,427	10,498
System integration projects	206	1,168	4,247	4,591
Other	10	58	57	73
Unallocated corporate expenses	(1,456)	(8,242)	(14,719)	(11,990)
Operating profit	1,735	9,820	7,012	3,172
Unallocated corporate financing expenses, net	(1,245)	(7,046)	(4,827)	(2,511)
Other income, net	-	-	23	-
Taxes on income	-	-	(85)	(37)
Profit for the year	*490*	*2,774*	*2,123*	*624*

C. Segment assets

Unitronics (1989) (R"G) Ltd. Consolidated	*December 31, 2007*	*December 31, 2007*	*December 31, 2006*
	(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Products	3,538	20,022	20,120
System integration projects	1,607	9,095	11,721
Other	27	151	269
Unallocated corporate assets	14,840	83,985	91,392
Consolidated total assets	*20,012*	*113,253*	*123,502*

Note 22 - Business and geographical segments (cont'd)

2. Primary report on business segments (cont'd)

D. Segment liabilities

Unitronics (1989) (R"G) Ltd. Consolidated	*December 31, 2007*	*December 31, 2007*	*December 31, 2006*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Products	1,520	8,600	4,867
System integration projects	1,511	8,552	15,580
Other	37	207	215
Unallocated corporate liabilities	12,705	71,903	81,410
Consolidated total liabilities	*15,773*	*89,262*	*102,072*

E. Capital expenditure

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Products	86	486	577	395
System integration projects	104	591	526	324
Unallocated capital Expenditure	198	1,120	762	1,012
Consolidated total capital expenditure	*388*	*2,197*	*1,865*	*1,731*

F. Depreciation and amortization

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Products	81	461	309	226
System integration projects	79	447	263	186
Unallocated depreciation and amortization	590	3,336	1,163	2,592
Total depreciation and amortization	*750*	*4,244*	*1,735*	*3,004*

Note 22 - Business and geographical segments (cont'd)

3. Secondary report on geographical segments

A. Revenues

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
	(in thousands)			
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Israel	6,616	37,435	40,305	45,972
Europe	6,064	34,319	30,449	18,275
America	4,658	26,363	19,924	12,919
Other destinations	748	4,236	4,103	3,608
	18,086	*102,353*	*94,781*	*80,774*

B. Segment assets

Unitronics (1989) (R"G) Ltd. Consolidated	*December 31, 2007*	*December 31, 2007*	*December 31, 2006*
	(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Israel	1,486	8,407	9,688
Europe	483	2,736	1,881
America	2,215	12,537	5,531
Other destinations	3	15	137
Unallocated corporate assets	15,825	89,558	106,285
Consolidated total assets	*20,012*	*113,253*	*123,502*

C. Capital expenditure

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
	(in thousands)			
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
America	7	40	46	61
Unallocated capital expenditure	381	2,157	1,819	1,670
Consolidated total capital expenditure	*388*	*2,197*	*1,865*	*1,731*

Note 23 - Profit per share

Unitronics (1989) (R"G) Ltd. Consolidated and company	*For the year ended December 31*	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Profit for the year				
Basic and Fully diluted	490	2,774	2,123	624
Weighted average share capital (number of shares)				
Basic and Fully diluted	11,082,454	11,082,454	11,492,170	11,652,622

Note 24 - Financial Instruments and risk management

A. Financial Risk factors

The Company's operations expose it to various financial risks such as market risks (including currency risks, fair value risks relating to the rate of interest and price risks) credit risks, liquidity risks and cash flow risks relating to the rate of interest. The program for managing the Company's risks focuses on actions to reduce to a minimum the negative possible effects of the Group's financial transactions.

Managing risks is carried out by the Company's management under the supervision of its Board of Directors.

1. Credit Risks

As at December 31, 2007 the company (consolidated) had trade account receivables and other account receivables amounting to approximately NIS 14,484 thousands. The company does not predict material credit risks in respect of trade account receivables and other account receivables.

2. Currency and Index risks

a. Most of the engagements that the Group had in the field of the systems are generally linked to the US dollar or the Euro. In addition a considerable part of the Group's sales in the field of products are dominated or linked to the US dollar or the Euro. Changes in the rates of exchange of the dollar against the shekel and of the Euro against the shekel, mainly during the period between the signing of the agreements and payment for them, are likely to create an exposure for the Group.

b. The group policy is that the engagements and payments that the Group makes with sub-contractors and suppliers relating to the projects in the field of systems are denominated or linked to the US dollar or to the Euro. Therefore, changes in the rates of exchange of the US dollar against the shekel and of the Euro against the shekel are likely to create an exposure for the Group.
It should also be stated that there is a certain protection in that in the field of systems the Company's policy is linkage of contracts with sub-contractors to the currency in which the engagement with the customer is linked.

c. The Company has convertible bonds linked to the us dollar and bonds linked to the index for large amounts, and therefore changes in the rates of exchange of the us dollar and changes in the consumer price index are likely to create an exposure for the Company.

Note 24 - Financial Instruments and risk management (cont'd)

3. Interest risks

The Group has loans denominated in US dollar and in Euro, with variable interest in a spread from Libor.

Changes in the rates of interest are likely to affect the Group's business results.

The Company has liquid balances, which are deposited in unlinked shekel balances, bearing interest, and therefore the Company is exposed to changes in the shekel rates of interest which are likely to affect the Company's business results.

B. Interest rates risk

The following table presents the book value of the Group's financial instruments, which are exposed to fair value risk and/or cash flow risk for interest rates, according to the contractual maturity dates or the re-determined dates of price, whichever earlier:

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

	1th year	2th year	3th year	4th year	5th year	6th year and after	No maturity date	Effective interest rate	Total
					Reported NIS, (in thousands)				
Financial assets:									
Marketable securities(*)	38,617	-	-	-	-	-	-		38,617
Financial liabilities:									
Long term bank debts -									
Linked to the USD (**)	420	420	420	420	420	2,096	-	Libor + 2.02%	4,196
Linked to the Euro (**)	522	522	522	522	522	2,612	-	Libor + 2.02%	5,222
Motor vehicles lassoers Linked to the Israeli CPI (*)	128	102	-	-	-	-	-	5.73% - 8.5%	230
Bonds:									
Convertible bonds linked to the USD (**)	8,750	8,750	8,750	-	-	-	-	Libor + 3.53%	26,250
Convertible bonds linked to the Euro (*)	1,975	-	-	-	-	-	-	8.13%	1,975
Bonds linked to the Israeli CPI (*)	-	6,870	6,870	6,870	6,870	6,869	-	9.57%	34,349
	26,822	(16,664)	(16,562)	(7,812)	(7,812)	(11,577)	-		(33,605)

(*) Assets / Liabilities bear fixed interest.
(**) Assets / Liabilities bear verible interest.

Note 24 - Financial Instruments and risk management (cont'd)

C. Fair value

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

	Book value		Fair value	
	December 31,		December 31,	
	2007	2006	2007	2006
	Reported NIS, (in thousands)			
Financial liabilities (2)				
Convertible bonds linked to the USD (1)	(24,686)	(32,232)	(25,594)	(34,650)
Convertible bonds in Euro (1)	(1,956)	(3,709)	(773)	(1,950)
Convertible bonds linked to the Israeli CPI (1)	(30,941)	(29,859)	(32,035)	(33,218)

(1) The fair value is based on quoted prices at active market as at the balance sheet date.
(2) The book value of all other financial assets and liabilities is approximation to the fair value.

D. Monetary Assets and Liabilities Classified by Linkage Basis

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

	December 31, 2007					
	Israeli currency		Other currencies			
	Not linked	Linked to the Israeli CPI	Other currencies	US dollars	Euro	Total
Reported NIS, (audited), (in thousands)						
Current assets	17,868	26,025	-	19,663	5,298	68,854
Current liabilities	(13,595)	(127)	-	(11,930)	(5,946)	(31,598)
Long-term liabilities	(1,546)	(31,043)	-	(19,712)	(4,700)	(57,001)
	2,727	*(5,145)*	-	*(11,979)*	*(5,348)*	*(19,745)*
Convenience translation into EURO, (unaudited), (in thousands)						
Current assets	3,157	4,598	-	3,475	936	12,166
Current liabilities	(2,402)	(22)	-	(2,108)	(1,051)	(5,583)
Long-term liabilities	(273)	(5,485)	-	(3,483)	(830)	(10,071)
	482	*(909)*	-	*(2,116)*	*(945)*	*(3,488)*

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

	December 31, 2006					
	Israeli currency		Other currencies			
	Not linked	Linked to the Israeli CPI	Other currencies	US dollars	Euro	Total
Reported NIS, (audited), (in thousands)						
Current assets	42,231	16,109	-	17,964	10,181	86,485
Current liabilities	(19,363)	(136)	(11)	(10,213)	(5,335)	(35,058)
Long-term liabilities	(1,628)	(30,089)	-	(28,093)	(6,986)	(66,796)
	21,240	*(14,116)*	*(11)*	*(20,342)*	*(2,140)*	*(15,369)*

Note 25 - Disclosure regarding the adoption of International Financial Reporting Standards (IFRS)

The Company will adopt the International Financial Reporting Standards (IFRS) in its financial statements as from January 1, 2008, while the transition date for reporting in accordance with IFRS is January 1, 2007.

According to the provisions of Accounting Standard No.29 of the Israel Accounting Standard Board and the clarification of the Securities Authority (FAQ 6), the Company presents in a note to the financial statements, as at December 31, 2007, the opening balance sheet as at January 1, 2007, the balance sheet as at December 31, 2007 and the statement of operations for the year then ended, after being prepared in accordance with the IFRS. Furthermore, the Company presents the following reconciliation between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS on January 1, 2007 (the transition date for reporting according to the IFRS), as at December 31, 2007 and for the year then ended.

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

To facilitate the first adoption, a number of subjects have been determined for which the obligation of retrospective implementation in the opening balance sheet does not apply, with the possibility to take advantage of the exemptions, fully or partly. Moreover, a number of exceptions have been determined regarding the retrospective implementation of certain aspects of the IFRS.

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

Translation differences from foreign operations

Accumulated translation differences, which occurred before the transition date, from foreign operations were credited to the accumulated loss; therefore, the capital reserve from translation adjustments, resulting from the translation of financial statements of foreign operations, as at January 1, 2007, is zero.

Share-based payment

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

Allocation of financial instruments recognized in the past

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

Note 25 - Disclosure regarding the adoption of International Financial Reporting Standards (IFRS)

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

		January 1, 2007 (Consolidated)		
Notes		***Israeli GAAP***	***Reconciliations***	***IFRS***
			(NIS, in thousands)	
	Cash and cash equivalents	39,906	-	39,906
8a	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
	Current assets	*100,394*	*29*	*100,423*
	Long-term deposits	*339*	-	*339*
1,4	*Property and equipment*	*22,019*	*(3,481)*	*18,538*
1	*Other assets and deferred expenses, net*	*750*	*3,141*	*3,891*
	Total assets	***123,502***	***(311)***	***123,191***
	Current maturities of long-term liabilities	11,720	-	11,720
	Accounts payable -			
	Trade	12,112	-	12,112
7	Other	11,444	385	11,829
2a	Conversion option of convertible bonds	-	1,003	1,003
2b	Warrants	-	1,829	1,829
8b	Embedded derivatives	-	775	775
	Current liabilities	*35,276*	*3,992*	*39,268*
	Long-term loans	9,978	-	9,978
2a,2c	Convertible bonds	25,331	(584)	24,747
	Bonds	29,859	-	29,859
3	Accrued severance pay, net	1,628	(1,135)	493
	Long-term liabilities	*66,796*	*(1,719)*	*65,077*
	Shareholders' equity	*21,430*	*(2,584)*	*18,846*
	Total liabilities and shareholders' equity	***123,502***	***(311)***	***123,191***

Note 25 - Disclosure regarding the adoption of 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)

		December 31, 2007 (Consolidated)		
Notes		***Israeli GAAP***	***Reconciliations***	***IFRS***
			(NIS, in thousands)	
	Cash and cash equivalents	16,085	-	16,085
8a	Marketable securities	38,617	-	38,617
	Accounts receivable -			
	Trade	13,995	-	13,995
1	Other	180	69	249
4	Inventory	12,981	(71)	12,910
	Inventory - work in progress	319	-	319
	Current assets	82,177	*(2)*	82,175
	Long-term deposits	*444*	-	*444*
1,4	*Property and equipment*	*22,217*	*(3,493)*	*18,724*
	Other assets and deferred			
1	*expenses, net*	*8,415*	*3,072*	*11,487*
	Total assets	***113,253***	***(311)***	***112,830***
	Current maturities of long-term			
	liabilities	11,775	-	11,720
	Accounts payable -			
	Trade	12,630	-	12,112
7	Other	7,856	374	8,230
	Conversion option of			
2a	convertible bonds	-	1	1
2b	Warrants	-	211	211
8b	Embedded derivatives	-	17	17
	Current liabilities	*32,261*	*603*	*32,864*
	Long-term loans	8,578	-	8,578
2a,2c	Convertible bonds	15,936	(328)	15,608
	Bonds	30,941	-	30,941
3	Accrued severance pay, net	1,546	(1,385)	161
	Long-term liabilities	*57,001*	*(1,719)*	*55,288*
	Shareholders' equity	*23,991*	*687*	*24,678*
	Total liabilities and shareholders' equity	***113,253***	***(311)***	***112,830***

Note 25 - Disclosure regarding the adoption of 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

		For the year ended December 31, 2007 (consolidated)		
Notes		***Israeli GAAP***	***Reconciliations***	***IFRS***
		(NIS, in thousands)		
8b	Revenues	102,353	896	103,249
7	Cost of revenues	70,787	(11)	70,776
	Gross profit	*31,566*	*907*	*32,473*
	Development expenses, net	1,562	-	1,562
	Selling & marketing expenses	13,502	-	13,502
1,3,6	General & administrative expenses	6,682	(137)	6,545
	Operating profit	*9,820*	*1,044*	*10,864*
2a,2b,5	Financing income	-	(3,966)	(3,966)
2a,4,5,8	Financing expenses	7,046	2,243	9,289
	Profit for the year	*2,774*	*2,767*	*5,541*
	Profit per 1 ordinary share NIS 0.02 par value	*0.250*	*0.250*	*0.500*

Note 25 - Disclosure regarding the adoption of 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. <u>Accomulated losses</u>

	Note	NIS, in thousands
Accomulated 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)
Neutralizing 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)
Fair value of warrants presented as a liability, and in the past presented in shareholders' equity	2b	(691)
Revaluation of embedded derivatives to fair value	8b	(775)
Share-based payments	6	(268)
Accomulated loss - as presented in the financial statements as at January 1, 2007 in accordance with IFRS		(29,395)
Accomulated 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	(191)
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)
Fair value of option warrants presented as a liability, and in the past presented in shareholders' equity	2b	927
Revaluation of embedded derivatives according to fair value	8b	(17)
Share-based payments	6	(312)
Accomulated loss - as presented in the financial statements as at December 31, 2007 in accordance with IFRS		(23,492)

Note 25 - Disclosure regarding the adoption of 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)

2. <u>Receipts on account of warrants and conversion options</u>

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

3. <u>Share premium</u>

	Note	NIS, in thousands
Balance as presented in the financial instruments as at January 1, 2007 in accordance with Israeli GAAP		48,442
Adjustment of premium according to the allocation of components of the Parcel of financial instruments	2c	1,808
Balance as presented in the financial statements as at January 1, 2007 in accordance with IFRS		50,250
Balance as presented in the financial instruments as at December 31, 2007 in accordance with generally accepted accounting standards in Israel		48,501
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		50,309

Note 25 - Disclosure regarding the adoption of 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. <u>Capital reserves</u>

	Note	Reserve from share-based payment transactions	Reserve from translation of financial statements 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 December 31, 2007 in accordance with generally accepted accounting standards in Israel		11	-	11
Cost of share-based payment	6	312	-	312
Classification of adjustments resulting from translation of financial statements of foreign operations	4	-	98	98
Balance as presented in the financial statements as at December 31, 2007 in accordance with IFRS		323	98	421

Note 25 - Disclosure regarding the adoption of International Financial Reporting Standards (IFRS) *(cont'd)*

D. Notes to the adjustments to balance sheets, as at January 1, 2007 and December 31, 2007, and the statement of operations for the year ended December 31, 2007, between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS

1. <u>Leasehold rights in land from the Israel Lands Administration</u>

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), by registering its name in the government (Minhal). APC undertook to register the right in the Company's name not later than November 14, 2007. For this acquisition, the Company paid an amount of NIS 3,471 thousand.

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

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

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

2. <u>Warrants, convertible bonds and allocating the consideration on the issue of a parcel</u>

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.

On the transition to reporting in accordance with IFRS, as at January 1, 2007, the liabilities presented as convertible bonds decreased by NIS 760 thousand, and the capital component relating to this instrument, in accordance with Standard 22 of NIS 235 thousand was cancelled, and a liability for the liability component of the conversion option of NIS 1,003 thousand was created according to the fair value of the conversion option at that time. The net difference of NIS 8 thousand was booked to retained earnings.

Note 25 - Disclosure regarding the adoption of International Financial Reporting Standards (IFRS) *(cont'd)*

D. Notes to the adjustments to balance sheets, as at January 1, 2007 and December 31, 2007, and the statement of operations for the year ended December 31, 2007, between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS (cont'd)

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

b. Warrants

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

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

On the transition to reporting in accordance with IFRS, as at January 1, 2007, the proceeds for the warrants of NIS 1,838 thousand, included in the framework of shareholder equity, was recognized as a short-term liability of NIS 1,829 thousand which represents the fair value of the warrants on the transition date. The net difference of NIS 691 thousand was booked to retained earnings.

c. Issue of a parcel

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

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

On the transition to reporting in accordance with IFRS, as a result of the difference in relating the consideration from the issue and the issue expenses, as at January 1, 2007, the balance of the convertible bonds increased by NIS 176 thousand, and the share premium increased by an amount of NIS 1,808 thousand. The net difference of NIS 1,984 thousand was booked to retained earnings.

3. <u>Benefits to employees</u>

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.

Note 25 - Disclosure regarding the adoption of International Financial Reporting Standards (IFRS) *(cont'd)*

D. Notes to the adjustments to balance sheets, as at January 1, 2007 and December 31, 2007, and the statement of operations for the year ended December 31, 2007, between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS (cont'd)

3. <u>Benefits to employees</u> (cont'd)

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

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

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

The company intends to implement 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. <u>Functional currency</u>

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

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

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

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

The Company chose, in accordance with the provisions of IFRS 1, to present in a zero amount the accumulated translation differences as at January 1, 2007.

Note 25 - Disclosure regarding the adoption of International Financial Reporting Standards (IFRS) *(cont'd)*

D. Notes to the adjustments to balance sheets, as at January 1, 2007 and December 31, 2007, and the statement of operations for the year ended December 31, 2007, between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS (cont'd)

5. Financing income and expenses

According to Israeli GAAP, financing income and expenses were presented, net, in the statement of operations. According to IFRS, financing income and financing expenses should be presented separately in the statement of operations and, therefore were presented separately for the year ended December 31, 2007 financing expenses of NIS 9,289 thousand and financing income of NIS 3,966 thousand.

6. Share based payments

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

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

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

7. Liability to the Chief Scientist for government grants

According to Israeli GAAP, the grants of the Chief Scientist are recorded as revenues (a reduction of an expense) on the date of their receipt. The royalties are a repayment of the grant and are recorded to cost of sales on the date of the actual payment.

On the transition to reporting in accordance with IFRS, and according to IAS 37 - "Contingent Liabilities", the grants of the Chief Scientist received will be recognized as a liability to the extent expected that the amount will be repaid. This liability is recognized at its present value. The amount of the liability is examined during every reporting period with the changes being posted to the statement of operations. As a result, as at January 1, 2007 and December 31, 2007, the liability to the Chief Scientist increased against retained earnings by NIS 385 thousand and NIS 374 thousand, respectively.

Note 25 - Disclosure regarding the adoption of International Financial Reporting Standards (IFRS) *(cont'd)*

D. Notes to the adjustments to balance sheets, as at January 1, 2007 and December 31, 2007, and the statement of operations for the year ended December 31, 2007, between reporting in accordance with Israeli GAAP, and reporting in accordance with IFRS (cont'd)

8. Financial instruments

According to Israeli GAAP, securities can be classified into two categories: "Long-term investment" which is presented at cost or "Current investment" which is presented at fair value and the changes in fair value are posted to the statement of operations.

According to IAS 39 - "Financial Instruments: Recognition and Measurement", the accounting treatment of financial instruments is based on their classification in one of the following four groups:

- Financial asset or financial liability which is measured at fair value through the profit and loss.
- Investments held to maturity.
- Loans and other receivables.
- Financial assets available for sale.

a. Investments in marketable securities

According to Israeli GAAP, the Company classified its investment in marketable securities as "Current investments". Accordingly, changes in its fair value were recorded to the statement of operations.

On the transition to reporting in accordance with IFRS, and according to the provisions of IAS 39 - "Financial Instruments: Recognition and Measurement", the Company classified its investments in securities to the "Financial assets measured at fair value through the profit and loss" group.

As the treatment of this group is identical to the treatment which, in accordance with the Israeli GAAP, as current investments, the transition to reporting in accordance with IFRS has no effect on this clause.

b. 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). 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 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 775 thousand, are recorded on the transition to IFRS on this date against retained earnings.

Note 26 - Nominal historical Financial Data of the Company for tax purposes

A. Balance sheets

Unitronics (1989) (R"G) Ltd.	**Convenience translation into EURO, (unaudited)**	**Nominal NIS, (audited)**	
	December 31, 2007	***December 31, 2007***	***December 31, 2006***
		(in thousands)	
Current assets	*14,146*	*80,056*	*104,064*
Long-term deposits	*78*	*444*	*339*
Investment in subsidiaries	*320*	*1,809*	*55*
Property and equipment	*3,936*	*22,276*	*22,071*
Other assets and deferred expenses, net	*1,486*	*8,408*	*743*
Total assets	***19,966***	***112,993***	***127,272***
Current liabilities	*5,607*	*31,731*	*34,564*
Long-term liabilities	*10,082*	*57,057*	*71,056*
Shareholders' equity	*4,277*	*24,205*	*21,652*
Total liabilities and shareholders' equity	***19,966***	***112,993***	***127,272***

Note 26 - Nominal historical Financial Data of the Company for tax purposes (cont'd)

B. Statements of operations

Unitronics (1989) (R"G) Ltd.	Convenience translation into EURO, (unaudited)	Nominal NIS, (audited)		
	For the year ended December 31,	*For the year ended December 31,*		
	2007	*2007*	*2006*	*2005*
	(in thousands)			
Revenues	17,175	97,198	90,734	77,495
Cost of revenues	12,114	68,560	61,351	55,235
Gross profit	*5,061*	*28,638*	*29,383*	*22,260*
Development expenses, net	276	1,562	8,521	5,753
Selling & marketing expenses	1,717	9,715	7,884	6,849
General & administrative expenses	1,052	5,953	5,421	5,466
Operating profit	*2,016*	*11,408*	*7,557*	*4,192*
Financing expenses, net	1,166	6,600	4,566	2,296
Operating profit after financing expenses, net	*850*	*4,808*	*2,991*	*1,896*
Other income, net	-	-	23	-
Profit before taxes on income	*850*	*4,808*	*3,014*	*1,896*
Taxes on income	-	-	98	27
Profit after taxes on income	*850*	*4,808*	*2,916*	*1,869*
The Company's share of subsidiaries losses	361	2,042	811	1,245
Profit for the year	*489*	*2,766*	*2,105*	*624*

Note 26 - Nominal historical Financial Data of the Company for tax purposes (cont'd)

C. Statements of Shareholder's Equity

Unitronics (1989) (R"G) Ltd.	**Nominal NIS, (audited)**						
	Share Capital	***Capital reserves***	***Share premium***	***Receipts on account of warrants***	***Company shares held by the company***	***Accumulated loss***	***Total***
	(in thousands)						
Balance at January 1, 2005	234	-	46,788	676	-	(26,843)	20,855
Issue of share capital							
Receipts on account of warrants	-	-	-	-	(574)	-	(574)
Profit for the year	-	-	-	-	-	624	624
Balance at December 31, 2005	234	-	46,788	676	(574)	(26,219)	20,905
Purchase of company shares by the company	-	-	-	-	(2,066)	-	(2,066)
Split of conversion option from convertible bonds, net	-	-	-	235	-	-	235
Benefit arising from warrants granted	-	11	-	-	-	-	11
Receipts on account of warrants	-	-	-	462	-	-	462
Profit for the year	-	-	-	-	-	2,105	2,105
Balance at December 31, 2006	*234*	*11*	*46,788*	*1,373*	*(2,640)*	*(24,114)*	*21,652*
Purchase of company shares by the company	-	-	-	-	(213)	-	(213)
Expiration of conversion option from convertible bounds, net	-	-	59	(59)	-	-	-
Profit for the year	-	-	-	-	-	2,766	2,766
Balance at December 31, 2007	*234*	*11*	*46,847*	*1,314*	*(2,853)*	*(21,348)*	*24,205*

	Convenience translation into EURO, (unaudited)						
	Share Capital	***Capital reserves***	***Share premium***	***Receipts on account of warrants***	***Company shares held by the company***	***Accumulated loss***	***Total***
	(in thousands)						
Balance at January 1, 2007	41	2	8,268	243	(466)	(4,261)	3,827
Purchase of company shares by the company	-	-	-	-	(39)	-	(39)
Expiration of conversion option from convertible bonds, net	-	-	10	(10)	-	-	-
Profit for the year	-	-	-	-	-	489	489

Balance at December 31, 2007	*41*	*2*	*8,278*	*233*	*(505)*	*(3,772)*	*4,277*

Chapter D - Additional Details about the Corporation (Reg. 10C - 29A)

4.1 Use of the Proceeds of Securities (Reg. 10C)

The Company raised, under the 2006 Prospectus dated August 16, 2006, a net amount (less issuance expenses) of approx. NIS 30 million in respect of the allotment of 100,000 units comprising NIS 34 million par value bonds (Series 2) and 600,000 option instruments (Series 2), convertible into Ordinary Shares.

The proceeds of the offering were designated, pursuant to the 2006 Prospectus, for financing the Company's operations, as the Company's Board of Directors would decide from time to time.

4.2 List of Investments in Active Subsidiaries and in Related Companies (Reg. 11)

Below are details regarding the Company's investments in active subsidiaries and in related companies as of the balance sheet date:

Subsidiary	**Class of Share**	**No. of Shares**	**Total Par Value**
Unitronics House Management and Maintenance (2003) Ltd.	Ordinary - NIS 1	1,000	NIS 1,000
Unitronics Inc. (foreign company)	Ordinary - US $0.01	1,000	US $10

Subsidiary	**Book Cost**	**Book Value**	**Share of Company's holdings in equity, voting and in power to appoint directors out of the total issued shares**
	NIS in thousands		
Unitronics House Management and Maintenance (2003) Ltd.	1	(56)	100%
Unitronics Inc. (foreign company)	***0**	(6,191)	100%

(*)An amount less than NIS 1,000

4.3 Changes in Investments in Active Subsidiaries and in Related Companies (Reg. 12)

None.

4.4 Revenues of Active Subsidiaries and Related Companies (Reg. 13)

Below are details of the profits / losses of the Company's active subsidiaries and its related companies as of the balance sheet date, before and after provision for tax, in the last reported year that ended on or prior to the balance sheet date, and details with regard to dividends, management fees and interest, up to the balance sheet date and thereafter:

For the year ended December 31 2007:

Subsidiary	Profit (Loss) Before Tax	Profit (Loss) After Tax	Dividend	Management Fees	Interest Revenues
	NIS in thousands				NIS in thousands
Unitronics House Management and Maintenance (2003) Ltd.	(111)	(111)	-	-	-
Unitronics Inc.	(1,931)	(1,931)	-	-	-

The Company did not receive any dividend, interest or management fees after the balance sheet date.

4.5 List of Loans (Reg. 14)

Not applicable (the provision of loans is not part of the Company's core business).

4.6 Trading on the Stock Exchange (Reg. 20)

During the reported year none of the securities issued by the Company were listed for trading on the Stock Exchange, and the trading of the securities already issued by the Company was not halted.

The Company holds a total of 612,969 dormant shares; these dormant shares do not entitle the Company to any rights (including no voting rights and/or rights to capital). (For details see section 1.4.3 above and section 4.9 below).

On February 20, 2006, the Company's Audit Committee and Board of Directors approved the Company's market-making agreement with Harel Investments House Ltd. (hereinafter "**Harel**"), pursuant to which Harel shall act as market maker for the Company's shares pursuant to the Tel-Aviv Stock Exchange Regulations and in accordance with the instructions and decisions of the Board of Directors of the Tel-Aviv Stock Exchange. The agreement entered into effect on March 1, 2006, following the approval by the Tel-Aviv Stock Exchange of the appointment of Harel as market maker of the Company's shares (for details of the terms of the agreement, see the Immediate Report of February 21, 2006).

The agreement with Harel is in addition to the agreement between the Company and a Sponsor Market Maker in Belgium, which was entered into upon the listing of the Company's shares in the EuroNext Stock Exchange in Brussels, Belgium, pursuant to the requirements applicable to the Company as a company whose shares are traded at the EuroNext Stock Exchange in Brussels, to ensure the frequency and liquidity of the trading of the Company's shares at the Belgian Stock Exchange. Since 2001, Leleux Associated Brokers S.A. (hereinafter, "**Leleux**") has been serving in this position, in accordance with the Liquidity and Market Making Agreement between the Company and Leleux. In accordance with the agreement, Leleux undertook to take all measures required of a market maker, pursuant to any law, including for the purpose of guaranteeing the frequency and liquidity of the trading in the Company's shares in accordance with the requirements of the Belgian Stock Exchange. For the purpose of compliance with this undertaking and in accordance with the requirements applicable to the Company as a company whose shares are traded on the Belgian Stock Exchange, the Company is required to make available to Leleux 50,000 of the Company's shares, and also the ability to make use of the amount of Euro 50,000, all for the purpose of buying and selling the Company's shares, in the course of the performance of Leleux's duties as a market maker. The abovementioned required amount of shares was provided to Leleux by Mr. Haim Shani and Ms. Bareket Shani (who was also, at that time, a shareholder of the Company), interested parties of the Company (and are included in the count of the holdings of Mr. Shani, as set forth in Section 4.9 below). In accordance with the agreement, Leleux is required to return these shares to Mr. and Ms. Shani, and to return to the Company the abovementioned amount, in cash, within six months from the expiration of the agreement. The agreement is for an unlimited period of time, and may be cancelled by mutual consent and with the approval of the stock exchange authorities in Belgium. Leleux is required to continue to perform its duties as market maker, until the appointment of a replacement market maker.

4.7 Payments to Senior Officers (Reg. 21)

4.7.1 Below are details of the payments made by the Company and all payment undertakings (in cash and/or cash equivalents, loans, rights and any other benefit) which the Company took upon itself in the reported year, including with regard to retirement terms, for each of the five officers receiving the highest fee from among the Company's senior officers:

Officer	**Salary and benefits NIS in thousands**	**Supplemental Payments**
CEO and Chairman of the Board of Directors	1,029	See Section 1.14.4 above
Deputy CEO and Products Department Manager	1,002	See Section 1.14.4 above
Deputy CEO and Human Resources Manager	620	See Section 1.14.4 above
Development Department Manager	524	
Project Manager	516	

4.7.2 On April 12, 2005, the General Meeting of the Company's shareholders resolved to approve the payment of a special bonus to Mr. Haim Shani, the Company's controlling shareholder, Chairman of the Board of Directors and CEO of the Company, as compensation for his contribution to the successful performance of the Company in the few years preceding 2004 in general, and in 2004 in particular, and for the Company having registered net profit in that year. The cost of the bonus to the Company amounted to approx. NIS 400,000. In addition the general meeting of the Company's shareholders approved a framework transaction pursuant to which Mr. Haim Shani is to receive an annual bonus for each calendar year starting from 2005, for as long as he is employed as the Company's CEO (hereinafter: the **"Future Bonuses"**), within 30 days from the date of approval of the financial statements by the Company's Board of Directors in respect of every such calendar year, at a rate of 7.5% of the pre-tax profit in that year (cost to the Company) (hereinafter: the **"Framework Transaction"**). The Future Bonuses are to be calculated for every year (non-cumulatively) without regard to losses and shall be paid within 30 days from the date of approval of the financial statements by the Company's Board of Directors in respect of every such calendar year, as stated above, and approval of their conditions by the Audit Committee and the Board of Directors as consistent with the conditions set in the above Framework Transaction. On March 25, 2007 the Audit Committee and the Board of Directors approved the payment of a bonus in the amount of NIS 155,000 to Mr. Haim Shani in respect of 2006 in accordance with the conditions of the above Framework Transaction (for additional details, see the Immediate Report dated March 25, 2007). On March 13, 2008, the Audit

Committee and the Board of Directors approved the payment of a bonus in the amount of NIS 208,000 to Mr. Haim Shani in respect of 2007 in accordance with the conditions of the above Framework Transaction (for additional details, see the Immediate Report dated March 13, 2008.

On March 27, 2006 the Audit Committee and the Board of Directors approved an amendment to the employment agreement between the Company and Mr. Haim Shani, according to which the payment of Mr. Shani's present salary, amounting (as detailed above) to a total gross monthly salary of $15,000, plus the Future Bonuses (hereinafter: the "**Total Salary**"), will be divided such that a part of the Total Salary will be paid by the subsidiary Unitronics Inc., and the balance of the Total Salary will be paid by the Company, in respect of his services as its CEO, provided that the division of the Total Salary between the Company and Unitronics Inc. shall be effected in a manner whereby there will be no additional salary cost to the Company (on a consolidated basis with Unitronics Inc.) as compared to the salary cost to the Company without such division. Since the above division of Mr. Shani's salary allows diversion of part of the management resources to US markets in order to contribute to development and growth of Company business activity in such markets and also allows Mr. Haim Shani to be involved with and present at subsidiary activities in a manner that does not entail additional salary costs to the Company (compared to employment of a third party in the position above), the Audit Committee and the Board of Directors have determined that the amendment may only benefit the Company.

4.8 Salary and Benefits (Reg. 22)

Below are details, to the best of the Company's knowledge, of the benefits received by each of the interested parties in the Company, directly or indirectly, or benefits which he is entitled to receive from the Company, from a subsidiary, or from a related company, in the reported year:

4.8.1 During the reported period, the Company paid to interested parties employed by the Company a total amount of NIS thousand (including supplemental payments), according to the following breakdown:

Interested Party	**Paid by Balance Sheet Date**
	NIS in thousands
Haim Shani	1,029
Bareket Shani	620
Other directors	81

4.8.2 As per the decision of the Audit Committee and the Company's Board of Directors in May 2003, Unitronics House Management and Maintenance (2003) Ltd. ("**Unitronics Management**"), a wholly owned subsidiary of the Company, provides management and maintenance services for the Unitronics floors. These services include, primarily, service for elevators and air conditioning, electrical and fire detection systems at Unitronics House (contacting various contractors in case of malfunction and/or for servicing and/or periodic testing, as per manufacturer's/supplier's instructions) as well as provision of cleaning, pest control, gardening and security services (via subcontractors). In return for these services, Unitronics Management charges monthly management fees at a rate of about $2.0 per square meter of each tenant's space at Unitronics House, and in addition charges separately for electricity consumption according to readings of separate meters for Unitronics and for the other tenants at Unitronics House (who share the expense, pro-rated to the area used by each tenant).

Unitronics Management also provides such management and maintenance services to the Private Floors at Unitronics House, leased by a company wholly owned by Mr. Haim Shani and Mrs. Bareket Shani. There is no written contract between Unitronics, Unitronics Management and Mr. and Mrs. Shani with regard to the management services. In actual fact, Mr. and Mrs. Shani charge the tenants leasing the Private Floors (including the Company) the full management fee charged by Unitronics Management, and said tenants pay Unitronics Management directly for management services at the same rate per square meter paid by Unitronics (other than for consumption of electricity, where each tenant is charged according to his own separate electricity meter).

For these services, Unitronics Management was paid in total NIS 1,149 thousand, NIS 1,230 thousand and NIS 1,226 thousand for the years 2005, 2006 and 2007 respectively; of which NIS 439 thousand, NIS 530 thousand and NIS 527 thousand respectively were paid by the Company and NIS 710 thousand, NIS 700 thousand and NIS 699 thousand by third parties.

4.8.3 Effective from August 2004, the Company has been renting, from a company wholly owned by the interested parties, Mr. Haim Shani and Mrs. Bareket Shani (hereinafter "**the Lessor**"), approx. 200 sq.m. on the Private Floors of Unitronics House, in accordance with terms identical to those under which areas on the Private Floors are let to third parties, and which also reflect customary terms of rental in Airport City in general. The rental is for a period of three years, with an option for the Company to extend the lease for two additional periods of 12 months each (for further details, see Section 1.12.2 hereinabove). On August 11, 2005, the Company's Audit Committee and Board of Directors resolved to approve an amendment to the aforementioned rental agreement. Pursuant to the amendment, the Company shall rent from the Lessor, as of August 1, 2005, an additional 436 sq. m. (in addition to the 196 sq. m. that the Company rented pursuant to the original rental agreement) of Unitronics House (hereinafter "**the Additional Area**"). The total area rented by the Company from the Lessor is approximately 632 sq. m. The Additional Area shall be subject to the terms and conditions of the original rental agreement (for additional details about the terms and conditions of the rental agreement, see Section 1.12.2 hereinabove). The total annual rental fees payable by the Company to the Lessor for the original area plus the Additional Area (excluding management fees for Airport City and for the subsidiary) amount to approx. $95,000 (ninety five thousand US Dollars). The amendment was approved pursuant to Regulation 1(5) to the Companies Regulations (Relief in Transactions with Interested Parties) 5750-2000, following a resolution of the Company's Audit Committee and Board of Directors that the aforementioned agreement is effected at market conditions and is within the Company’s ordinary course of business, and that it does not harm the Company's best interests. Among others, the Audit Committee and the Company’s Board of Directors have relied on Company-conducted checks indicating that rental terms under which the additional area would be rented are similar to terms under which areas owned by the Lessor at Unitronics House are rented to third parties, which are unaffiliated with the Company or with its controlling shareholders, and also reflect rental terms (price / duration) which are prevalent at Airport City in general for areas of similar and/or inferior finish quality and which offer similar and/or inferior general services. The Company paid to the Lessor for the year 2006 in respect of leasing the aggregate premises under lease in the Private Floors of Unitronics House an aggregate amount of NIS 427 thousand. On March 25, 2007, the Company’s Audit Committee and Board of Directors approved the exercise of the above option to extend the lease for an additional 12-month period (see the Immediate Report concerning an “Exceptional Transaction” with a “control holder” which does not require Shareholders’ approval, dated March 26, 2007 and section 1.12.2 in this report). It is the Company’s intention to exercise the above option and to extend the lease for an additional 12-months period.

4.8.4 Furthermore, under an oral agreement (not limited in duration) between the Company and Mr. Albert Sharabani (the father of Mr. Haim Shani) dating back to the time prior to the Company becoming a publicly traded company, the Company engages Mr. Albert Sharabani’s services for various administrative tasks (primarily courier services by car) for consideration of a monthly fee of a non-material amount, whose cost to the Company amounted in 2007 to about NIS 38 thousand.

4.8.5 According to the decision by the Audit Committee and the Company’s Board of Directors, approved by the Annual General Meeting of Company Shareholders on August 9, 2001, the Company's external directors and directors who do not serve as officers at the Company are entitled to annual remuneration and remuneration for participation at a rate of the "Determined Amount" as set forth in the Second and Third Schedules of the Companies Regulations (Rules Regarding Remuneration and Expenses to External Directors), 5760-2000, and in accordance with the relevant rating of the Company's capital.

As part of this, on July 3, 2007 the Annual General Meeting of Company Shareholders approved the resolution of the Company’s Board of Directors dated March 25, 2007 regarding Mr. Moshe Baraz, an external director of the Company, regarding granting him indemnification, in accordance with the indemnity provisions under the Articles of Association of the Company, the inclusion of Mr. Baraz in the insurance coverage of the directors and officers of the Company, and in addition it approved the granting of annual remuneration and participation remuneration (for details see the Amended Report dated March 31, 2007 to the Immediate Report concerning the grant of an indemnity letter to an “office holder”, dated March 31, 2007, and sections 2 and 3 of the Immediate Report concerning the results of an annual general meeting of the Company’s shareholders, published on July 3, 2007).

4.8.6 Further to the approval of the General Meeting of Company Shareholders, on May 18, 2006 the Company’s Board of Directors allotted options for the purchase of an aggregate amount of 10,000 of the Company’s Ordinary Shares to Mr. Ron Mishael, as part of his election for a second term as an external director of the Company, under the provisions of Section 102 of the Income Tax Ordinance (New Version) and in accordance with the Company’s 2003 Option Plan (for details see Section 4.10.3.c below). These options may be exercised for Company Ordinary Shares through May 2009 at an exercise price of €1.00 per share, with the remainder of the terms being essentially similar to the terms under which the options were granted to the rest of the directors of the Company, in accordance with the Company’s 1999 Option Plan, subject to adjustments and amendments made to adapt them to amendments introduced in Section 102 of the Israeli Income Tax Ordinance, after the allocation of options to the rest of the Company’s directors (for further details regarding the option terms see the immediate report on the subject dated December 15, 2005).

4.8.7 On April 12, 2005, the General Meeting of the Company’s Shareholders resolved to increase the coverage of the Officers’ and Directors’ Liability Insurance policy from an amount of $2,000,000 (two million US Dollars) per event and in total in respect of damages that could occur during the period of the insurance (and a further $400,000 for legal defense costs in Israel), to an amount of US$ 5,000,000 per event and in total, in respect of damages that could occur during the period of the insurance (and a further US$ 1,000,000 in respect of legal defense costs in Israel). In addition, the General Meeting resolved to adapt the Company's deductible in respect of claims filed in the USA and in Canada from an amount of $10,000 per event to an amount of US$ 50,000 per event. The extended period of the insurance shall apply effective from December 1, 2004 until November 30, 2005, and retroactively from August 9, 1989. In addition, the General Meeting resolved to authorize the Company's management to renew from time to time, under similar conditions, the Company's Officers' and Directors' Liability Insurance policy for additional periods of up to 18 months each time. The cost of this insurance coverage to the Company is about $8,700 (about NIS 33,000). On March 25, 2007 the Audit Committee and the Company's Board of Directors approved renewal of the policy under the terms of the framework transaction (for details, see immediate report on the subject dated March 26, 2007).

4.8.8 On April 12, 2005, the Company's General Meeting of Shareholders resolved to grant to Mr. Haim Shani a special bonus and, in addition, pursuant to the Framework Transaction, an annual bonus for each calendar year as of the year 2005 (for additional details about the bonus for the years 2005, 2006 and 2007, see Section 4.7.2. hereinabove).

4.8.9 On May 9, 2006 the Annual General Meeting of Company Shareholders approved, following approval by the Audit Committee and the Company's Board of Directors, an amendment to the chapter "Indemnity and Insurance of Office Holders" of the Company's Articles of Association (section 109 thereof) in order to allow for indemnification, insurance and exemption of office holders to the maximum degree allowed under the Companies Law (for details see section 4.16.2 below) as well as: (a) indemnification and exemption of office holders serving from time to time in the Company and/or in another Company (except for office holders who are controlling shareholders of the Company), as per the provisions of the Indemnification Document attached as Appendix B to the Report on a Transaction with a Controlling Shareholder published on March 27, 2006 (hereinafter: the "**Indemnification Document**"), and to issue the Indemnification Document to such office holders; and (b) approval of indemnification and exemption to Mr. Haim Shani and Ms. Bareket Shani, the controlling shareholder in the Company and his wife, according to the provisions of the Indemnification Document, and to issue the Indemnification Document to Mr. Haim Shani and to Ms. Bareket Shani.

Pursuant to the above decisions, the Company issued on May 18, 2006 Indemnification Documents as per the above to office holders in the Company, including to Messrs. Haim Shani and Bareket Shani, the controlling shareholder in the Company and his wife. On March 25, 2007 the Company issued a further Indemnification Document as per the above to Mr. Moshe Baraz, who began serving in office as an external director of the Company as of December 8, 2006.

4.9 <u>Holders of the Corporation's Shares (Reg. 24)</u>

Below are details, to the best of the Company's knowledge, of the shares of the Company and securities convertible into such shares, as well as such securities of a subsidiary and a related company of the Company, which each interested party of the Company holds as of the date of the report:

<u>In the Company:</u>

Name of Holder	Ordinary Shares	Option instruments (Series 1)	Options (non-negotiable)	Share of issued capital	Share of votes	Share of issued capital	Share of votes
				Non-diluted		Fully diluted	
Haim Shani [3,2,4]	6,139,551	200,000		55.49%	59.11%	38.76%	41.20%
Unitronics (1989) (RG) Ltd. *	612,969			0	0	0	0
Ron Mishael[5]	0	0	10,000	0	0	0.05%	0.05%

* Buy-backs of Company shares (creation of Dormant Shares in the Company's share capital)

As of August 2005, the Company purchases, from time to time, Ordinary Shares of the Company within the framework of trade on the stock exchange. As of December 31, 2007, the Company holds a total of 612,969 shares purchased as aforementioned (out of 11,676,546 Ordinary Shares in the Company's issued capital). These purchases were made for a total sum of approximately NIS 2.85 million and at prices of between NIS 3 and NIS 5.5 per share. As long as these shares are owned by the Company, they are "dormant shares" within the meaning of this term in the Companies Law, 5759-1999. For details see section 1.4.3 above.

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2 These shares also include 50 Company shares that are held by Corpus Colossum Ltd., a private company registered in Israel, in which Mr. Shani holds all issued share capital and voting rights. In addition, these shares also include 50,000 Company shares, which Mr. Shani made available to the market maker of the Company in Belgium as detailed in Section 4.6 above.
These shares are held by Interprofessionelle Effeotendeposito - en Girokas N.V. - Caisse Interprofessionelle de Depots et de Virements de Titres S.A. (hereinafter: "**CIK**") which is registered in the Company shareholder registry as the owner of the shares; to the best of the Company's knowledge, according to practice in Belgium and to CIK regulations, this entity serves as registry and clearing house in Belgium, with shares of companies traded on the stock exchange in Belgium deposited with it subject to a global power of attorney, and the various trading transactions in shares made by banks, brokers and other authorized persons on the stock exchange are recorded in its books. Thus CIK fulfills a role essentially similar to that of registry companies in Israel, facilitating recording of Company shares traded on the stock exchange in Belgium; shareholders who purchase Company shares on the stock exchange in Belgium transact the buying (or selling) via a securities account managed in their name at financial institutions (brokers, banks etc.) who are, directly or indirectly, members of the CIK system. The Company is unaware of other interested parties other than those listed above.

3 In addition to shares directly or indirectly held by him as set forth above, Mr. Haim Shani also holds an irrevocable power of attorney (under a contract signed by him and by his brothers, Messrs. Tzadok and Alon Shani on March 18, 2002) to participate in meetings of Company shareholders and to vote 399,999 Ordinary Shares of the Company on behalf of his brothers at his sole discretion on any matter except for changes to rights associated with such shares in the Company's Articles of Association. The power of attorney shall expire in case of a decrease of 90% or more in holdings of Messrs. Tzadok and Alon Shani in these shares and/or when Mr. Haim Shani should no longer be a controlling shareholder of the Company.

4 In addition to shares, Mr. Shani holds 200,000 option instruments (Series 1) acquired via a transaction outside the stock exchange from two underwriters of the 2004 Prospectus. Furthermore, under his employment contract, Mr. Shani is entitled to additional options (see section 1.14.4a above). The granting of further options to Mr. Shani is subject to all required legal approvals, including the approval of the Tel-Aviv stock exchange for listing for trading the shares underlying such options.

5 Mr. Ron Mishael, who serves as an external director of the Company, holds options to purchase 10,000 Company shares under the Company's 2003 Option Plan (see section 4.10.3c below).

In subsidiaries and related companies:

None.

4.10 Registered Capital, Issued Capital and Convertible Securities (Reg. 24A)

4.10.1 Registered and Issued Capital

The Company's registered capital is NIS 2,000,000, divided into 100,000,000 Ordinary Shares with a par value of NIS 0.02 each.

The Company's issued capital is NIS 233,530.92, divided into 11,676,546 Ordinary Shares with a par value of NIS 0.02 each. The Company holds a total of 612,969 dormant shares; these dormant shares do not entitle the Company to any rights (including voting rights and/or rights to capital).

4.10.2 Convertible Securities - Overview

Company capital includes convertible securities as follows:

(a) NIS 26,250,000 par value of bonds (Series 1) with terms as set forth in section 1.19.4 above, listed for trading on the Tel Aviv Stock Exchange.

(b) Bonds (Series 2) with terms as set forth in section 1.19.5 above, listed for trading on the Tel Aviv Stock Exchange.

(c) 1,300,000 option instruments (Series 1), registered to the holder's name, exercisable for Ordinary Shares on any trading day up to and including May 23, 2008, such that each option instrument (Series 1) may be exercised for one ordinary share of the Company, against cash payment of the exercise price of NIS 7.55, linked to the representative rate of the US Dollar.

(d) 600,000 option instruments (Series 2), registered to the holder's name, exercisable for Ordinary Shares on any trading day up to and including August 24, 2010, except on the 12th to 16th day of each month in said period, such that each option instrument (Series 2) may be exercised for one Ordinary Share of the Company, against cash payment of the exercise price of NIS 5.00, linked to the Consumer Price Index, but no less than NIS 5.00.

(e) Bonds with terms as detailed in section 1.4.1 above, not listed for trading on the stock exchange and are convertible to 44,786 Ordinary Shares of the Company.

(f) 432,000 options granted under Option Plans whose terms are listed in section 4.10.3 below, not listed for trading on the stock exchange.

4.10.3 Convertible Securities - Option Plans

The Company has three option plans, the 1999 Plan, the 2001 Plan, and the 2003 Plan (as defined herein below), the main terms of which are as follows:

(a) 1999 Option Plan

The July 1999 Option Plan (hereinafter: the "**1999 Plan**") for employees, officers and consultants of the Company or the Company's subsidiaries, includes a framework for the purchase of 440,000 Ordinary Shares until the year 2009. The exercise price of the options under the 1999 Plan shall be not lower than the reasonable market value of the Company's shares on the date of the grant, which is defined in the Plan as the average closing price of the Company's share on the

Stock Exchange on which its shares are traded in the ten days of trading preceding the grant of the option.

The options granted under the 1999 Plan may be exercised in installments during a vesting period, pursuant to the determination of the Company's Board of Directors, which is, in general, up to five years from the grant thereof. The options are not transferable, other than by a will or succession laws, and during the grantee's life, the options may be exercised by him or by his legal representative, only. The options shall expire pursuant to the terms as shall be determined by the Company's Board of Directors and in general (in the case of employees) not later than 12 months after the termination of their employment, and in the event of death or disability, no later than three months. The 1999 Plan includes adjustment mechanisms for changes in the Company's share capital (such as the distribution of bonus shares, the division or consolidation of share capital) and also mergers, acquisitions and reorganization, pursuant to which the options would confer on the holders thereof rights to shares identical to those allotted to the Company's shareholders in the course of the said events, subject to the option holders' right, in the events of reorganization, mergers and acquisitions, to exercise their options into shares on the effective date of the said events. In events of liquidation, the options become immediately exercisable, without being dependant on the above vesting arrangement.

As of the date of this report, all the options granted under the 1999 Option Plan have expired.

As for options to purchase 4,750 Company shares under the 1999 Option Plan not yet granted as of the report date, and as for options expired or about to expire unexercised under their terms and to become available once more for grant under the program, the Company sought and received no approval from the stock exchange for listing such shares for trading. The grant of such options is subject to all required legal approvals, including approval of the Tel-Aviv Stock Exchange to list the shares underlying such options for trade.

(b) 2001 Option Plan

The May 2001 Option Plan (hereinafter: the "**2001 Plan**") for employees, officers and consultants of the Company or the Company's subsidiaries, includes a framework for the purchase of 950,000 Ordinary Shares until the year 2011. The terms of the 2001 Plan are essentially similar to the terms of the 1999 Plan. Under the 2001 Plan, options have been granted to employees, officers and consultants of the Company for the purchase of 793,499 Ordinary Shares at an exercise price ranging from €0.91 to €2.70 per share. All the options granted under this plan have expired, in accordance with their terms, without being exercised.

As for options to purchase 156,501 Company shares under the 2001 Option Plan not yet granted as of the report date, and as for options expired and/or about to expire, without being exercised under their terms and which are to become available once more for grant under the program, the Company did not seek and has not received approval of the stock exchange for listing such shares for trading. The grant of such options is subject to all required legal approvals, including approval of the Tel-Aviv stock exchange to list the shares underlying such options for trade.

(c) 2003 Option Plan

An Option Plan from November 2003 (hereinafter: the "**2003 Plan**"), which complies with the provisions of Section 102 to the Israeli Income Tax Ordinance (New Version), including as amended in Amendment No. 132, dated January 1, 2003 (in this section, hereinafter: the "**Ordinance**"). The 2003 Plan is intended for employees and/or the officers of the Company, the Company's subsidiaries and/or Company's parent company, who are not controlling shareholders, and includes a framework for the purchase of 1,000,000 Ordinary Shares until the year 2013. The options granted under the 2003 Plan are granted under a "**capital gains course**" (as defined in Section 102(b)(2) to the Ordinance), will be held in trust for at least 24 months from the tax year in which they were granted, the profit from the sale of the underlying shares shall be taxed at a rate of 25% only (instead of the marginal rate of tax applicable to the grantee), and the Company shall not be able to recognize the options as an expense. The exercise price of the options granted under the 2003 Plan shall be not less than the par value of the shares underlying the options. Options cancelled or not exercised within the time frame specified for exercising them shall become available once more, and may be granted anew under the plan to employees of the Company and its subsidiaries who are not interested parties in the Company by virtue of their holdings, and also, subject to approval of the Tel Aviv Stock Exchange to list them for trading, to other grantees under this plan who are not such employees. The other terms of the 2003 Plan are essentially similar to the terms of the 1999 Plan.

As of the report date, options under the 2003 Plan to purchase 607,000 Ordinary Shares have been granted to employees who are not interested parties, of which options to purchase 276,000 shares have expired unexercised by the report date, pursuant to terms thereof. Unexpired options are exercisable for Company Ordinary Shares, some through January 2009, the others through January 2010, subject to a 4-year vesting schedule (one third of options vesting after 2, 3 and 4 years from the date of grant, respectively) at an exercise price of €1.30 per share.

Out of the above 276,000 expired options, in May 2006 options to purchase 10,000 Ordinary Shares were granted to Mr. Ron Mishael who serves as an external director of the Company (for details see Section 4.8.6 above). These options are exercisable for Company Ordinary Shares through May 2009 at an exercise price of €1.00 per share, with no vesting period. In addition, from the aforementioned expired options, in June 2006, non-negotiable options to purchase 105,000 Ordinary Shares were allotted to Mr. Jonathan Roman, a former employee of the Company who serves as a consultant and external service provider to the Company (for details see section 4.16.8 below). These options are exercisable for Company Ordinary Shares through May 2009, at an exercise price of €1.00 per share, with no vesting period.

The remaining options to purchase 498,000 shares grantable under the 2003 Option Plan and exercisable for 498,000 shares have been transferred to a trustee on behalf of the Company, and are intended to be granted from time to time to employees who are not interested parties by virtue of their holdings in the Company and/or its subsidiaries, as per instructions of the Company’s Board Of Directors who shall also be authorized to determine and change upon each grant the exercise price, vesting period, exercise period and other terms of the option to apply to all options granted as aforementioned (see additional details in Section 4.10.4 below).

4.10.4 Convertible Securities - Summary Information

Below is summary information regarding the convertible securities in the Company's capital as of the date of the report:

Type of convertible security / option plan	Framework of Ordinary Shares, NIS 0.02 par value each, that was reserved for issuance / conversion	Amount of shares underlying the securities allotted/ actually granted by report date	Date of allotment / issuance	Total shares underlying expired / paid-up securities by report date	Total shares receivable in the future for exercising options actually allotted / granted as of the report date (vested / non-vested)	Amount of shares vested / converted as of the report date	Exercise price / conversion ratio	Expiration Date
Bonds (Series 1)[6]	3,888,889	0	19.5.04	972,222		2,916,667	9 bonds per share	9.5.2010
Option instruments (Series 1)[7]	1,300,000	0	19.5.04 22.6.04			1,300,000	NIS 7.55	23.5.2008
Option instruments (Series 2)[8]	600,000	0	27.8.06			600,000	NIS 5.00	28.8.2010
Bonds[9]	158,562	0	9.2.01	113,776		44,786	€4.73	7.8.08
1999 Plan[10]	440,000	288,000	2.12.99	288,000	0	0	€3.80	2.12.04
		35,000	1.7.02	35,000	0	0	€0.82	30.6.07
		62,250	31.10.00	62,250	0	0	€1.00	31.10.05
		50,000	1.7.02	50,000	0	0	€1.00	30.6.07
2001 Plan[11]	950,000	376,500	28.6.01	376,500	0	0	€2.70	28.6.06
		39,999	11.3.01	39,999	0	0	€4.73	11.3.06
		15,000	11.3.01	15,000	0	0	€4.75	11.3.06
		362,000	1.7.02	314,000	0	0	€0.91	30.6.07
2003 Plan[12]	1,000,000	387,000	22.1.04	171,000	212,000	212,000	[13]€1.30	22.1.09
		105,000	22.1.04	105,000	0	0	[14]€1.30	21.1.10
		10,000	18.6.06	0	10,000	10,000	[15]€1.00	31.5.09
		105,000	10.6.07	0	105,000	105,000	€1.30	31.8.11
		105,000	10.6.07	0	105,000	105,000	€1.30	31.8.12
		[16] 498,000				0	-	-
Total	8 ,337,451	2,438,749		2,542,747	432,000	5,293,453		

4.11 Corporation's Directors (Reg. 26)

6 For details see section 1.19.4 above.
7 For details see section 4.10.2 above.
8 For details see section 4.10.2 above.
9 For details see section 1.4.1 above.
10 For details see section 4.10.3a above.
11 For details see section 4.10.3b above.
12 For details see section 4.10.3c above.
13 The economic value of the option as of the grant date is approximately €0.383. Despite these options being granted prior to the 2004 Prospectus and due to difficulty in obtaining appropriate data from the stock exchange in Belgium, the economic value of the option was calculated using the Black& Scholes formula, based on a discount rate and standard deviation as per data of the Tel Aviv Stock Exchange, as follows: discount rate of 3% (discount rate for the Euro) and weekly standard deviation of 3.8%. These are indicative values only, due to use of data from the stock exchange in Israel (rather than data of the stock exchange in Belgium as set forth above); the total beneficial value of the options granted on the above date is €148,221.
14 The economic value of the option as of the grant date is approximately €0.425 (based on data from the Tel Aviv Stock Exchange as set forth above). The total beneficial value of the options granted on the above date is €44,625.
15 The economic value of the option as of the grant date is approximately €0.061 (based on data from the Tel Aviv Stock Exchange as set forth above). The total beneficial value of the options granted on the above date is €610.
16 Options under the 2003 Option Plan transferred to trustee as set forth in section 4.10.3c above.

Details of directors: Below are details with regard to each one of the directors of the Company, according to the following subsections: (1) the name of the director; 1(a) his ID number; (2) his date of birth; (3) his address for service of process; (4) his citizenship; (5) his membership in a committee or committees of the Board of Directors; (6) is he an external director as defined in the Companies Law - yes/no, and does he have accounting and financial skills or professional qualifications; (7) is he an employee of the Company, of its subsidiary, of a related company or of an interested party in the Company - the position or positions which he holds therein; (8) the date on which he assumed office as a Company director; (9) his education and his employment in the last five years, detailing the profession or subject in which the education was acquired and the academic title or profession diploma which he holds, and details of the corporations in which he serves as a director; (10) whether he is, to the best of the knowledge of the Company and its other directors, a relative of another interested party in the Company - yes/ no, and details; (11) is he considered by the Company as having accounting and financial expertise required for conforming to the minimal number determined by the Company's Board of Directors pursuant to Section 92(a)(12) of the Companies Law - yes/ no.

(a) (1) Haim Shani; (1a) 056548142; (2) July 31, 1960; (3) 20 Bazelet Street, Shoham; (4) Israeli; (5) Chairman of the Board of Directors of the Company[17] and a member of the Securities Committee; (6) No; has professional qualifications; (7) Yes, CEO of the Company, a director and the senior officer of Unitronics House Management and Maintenance (2003) Ltd., director and president of Unitronics Inc.; (8) August 20, 1989; (9) High-school; serves as a director of Cardiosense Ltd., Corpus Colossum Ltd., Netrix Ltd.; (10) Yes, the husband of Mrs. Bareket Shani, a director and officer of the Company (see details hereinbelow); (11) No.

(b) (1) Bareket Shani; (1a) 058136631; (2) June 30, 1963; (3) 20 Bazelet Street, Shoham; (4) Israeli; (5) Director and a member of the Securities Committee and of the Credit and Investments Committee; (6) No, has professional qualifications; (7) Yes, Deputy CEO and Human Resources Manager, a director of Unitronics House Management and Maintenance (2003) Ltd.; (8) July 6, 1999; (9) Academic, B.A in industry and management engineering from the Technion - Israel Institute of Technology ; (10) Yes, the wife of Mr. Haim Shani, Chairman of the Board of Directors and CEO of the Company; (11) No.

(c) (1) Zvi Livne; (1a) 010025658; (2) July 22, 1947; (3) 20 Yohanan Hasandlar Street, Haifa; (4) Israeli; (5) Director, member of the Audit Committee, director with accounting skills; (6) No, has accounting and financial skills as well as professional qualifications; (7) Yes, a director of Unitronics House Management and Maintenance (2003) Ltd.; (8) July 8, 1999; (9) Academic, B.A in economics and accounting from Tel-Aviv University, M.B.A from Tel-Aviv University, holds an accountant diploma; serves as a financial and commercial advisor to a number of Israeli companies; senior partner at the accounting firm, Shifer, Fogel & Livne, CPA; (10) No; (11) Yes.

(d) (1) Ron Mishael; (1a) 056589971; (2) April 23, 1960; (3) 7 Menachem Begin Street, Ramat Gan, Beit Gibor Sport; (4) Israeli; (5) Director, member of the Audit Committee, member of the Credit and Investments Committee and a director with accounting skills; (6) Yes, has accounting and financial skills as well as professional qualifications; (7) No; (8) December 15, 2005 (second term); (9) Academic, Bachelor of Business specializing in accounting from the College of Management

[17] In connection with this matter see Section 4.16.7 below.

Academic Studies Division; holds an accountant diploma; senior partner in the Mishael-Rozenberg CPA firm; financial advisor to privately held companies; serves as an internal auditor at Mafil Ltd.; served as an external director of Reshef Computers and Peripheral Equipment (1982) Ltd. from 1997 - 2002; also serves as a director of Ron Mishael, CPA, R.A.M. Financial Services Ltd. and of Moral Financial Services Ltd.; serves as an external director of Gena Ltd. (public company); (10) No; (11) Yes.

(e) (1) Moshe Baraz; (1a) 058263476; (2) August 2, 1963; (3) 73 Adulam Street, Shoham; (4) Israeli; (5) Director, Audit Committee member and Securities Committee member, has accounting and financial skills as well as professional qualifications; (6) Yes, has accounting and financial skills as well as professional qualifications; (7) No; (8) December 8, 2006; (9) Academic - B.Ed. from the College of Management. Served as VP, Finance at advertising firm Tamir Cohen Ltd. between 1999-2004. Serves as VP and CFO at Kfar HaMaccabiah since 2004; serves as director of Dagan Management And Holdings Ltd.; (10) No; (11) No.

4.11.1 Directors with Accounting Skills: At the meeting of the Company's Board of Directors held on March 18, 2004, the Company's Board of Directors determined that the appropriate minimum number of directors of the Company with accounting and financial skills, taking into consideration, among other things, the size of the Company, the type of its operations, its complexity, etc., would be one director, for such time as the Company's Board of Directors comprises up to six members. In actual fact, three directors with accounting and financial skills out of five members of the Board of Directors serve at the Company, namely Messrs. Zvi Livne, Ron Mishael (who have accounting degrees and currently serve as CPAs) and Moshe Baraz (who has an accounting degree and serves as VP, and CFO).

4.12 Senior Officers (Reg. 26A)

Below are details with regard to each of the senior officers of the Company, whose details were not set forth in Section 4.11 hereinabove, according to the following subsections: (1) the name of the officer; 1(a) his ID number; (2) his date of birth; (2a) the date on which he assumed office; (3) the position he holds at the Company, at a subsidiary, at a related company or at an interested party in the Company; (4) is he a relative of another senior officer or of interested party in the Company - yes/no (5) his education and his employment in the last five years, detailing the profession or subject in which the education was acquired, the institution in which it was acquired and the academic title or professional diploma which he holds.

(a) (1) Eyal Saban; (1a) 058138710; (2) July 21, 1963; (2a) January 1, 2000; (3) Chief Technology Officer (CTO); (4) No; (5) High school graduate and graduate of IDF MAMRAM training school; since 1995 has been serving as the manager of Netium Ltd.; serves as a director and CEO of Netium Ltd.

(b) (1) Yair Itscovich; (1a) 058858176; (2) December 9, 1964; (2a) January 1, 1999; (3) Chief Financial Officer (CFO); (4) No; (5) High-school education and Level III Bookkeeping from the Ministry of Labor.

(c) (1) Alon Kedar; (1a) 057410102; (2) December 4, 1961; (2a) June 1, 1999; (3) Deputy CEO and General Manager of the Products Division; (4) No; (5) Academic, B.A in economics and management from Bar-Ilan University, M.B.A in marketing and financing from Bar-Ilan University. Before joining the Company, he served as the Marketing Manager of Zag Industries Ltd.

(d) (1) Eyal Horovitz; (1a) 058876574; (2) June 5, 1964; (2a) June 18, 2000; (3) Internal auditor of the Company; (4) No; (5) Academic, certified public accountant, jurist, senior lecturer at the College of Management, participates in professional and public committees, a member of the Committee of Auditing Standards and Auditing Procedures of the Institute of Certified Public Accountants in Israel. Member of the Board of Directors and of the Europe, Middle East and Africa Committee of Baker Tilly International, an international network of accountants. Participated in conferences and international committees in Munich, in October 2003, in Brussels, in May 2004, and at the North American Congress, in May 2004.

4.13 Corporation's CPA (Reg. 27)

Amit Halfon, CPA - 16 Aba Hillel Street, Ramat Gan.

4.14 Modification of the Articles or Memorandum of Association (Reg. 28)

In the reported year no modifications were made to the Company’s Articles or Memorandum of Association.

4.15 Recommendations and Resolutions of the Directors and Resolutions of the Extraordinary General Meeting (Reg. 29)

On March 27, 2006 the Company’s Board of Directors resolved, following approval of the Audit Committee on the same date, to convene a General Meeting of Company Shareholders, so that it may ratify the decision by Company shareholders dated December 15, 2005 with regard to the option grant to Mr. Ron Mishael as per section 1.4.4 above, as well as approve the modification of the chapter “Indemnity, Exemption and Insurance of Office Holders” of the Company’s Articles of Association, as set forth in section 4.16.2 below.

Resolutions of the Extraordinary General Meeting: On May 9, 2006 the General Meeting of Company shareholders ratified the re-appointment of Mr. Ron Mishael as external director for a second term and the option grant to Mr. Ron Mishael as per section 1.4.4 above, and also approved the modification of the chapter “Indemnity, Exemption and Insurance of Office Holders” of the Company’s Articles of Association, as set forth in section 4.16.2 below.

4.16 The Company's Resolutions (Reg. 29 A)

Below are details of the Company's resolutions with regard to the approval of acts pursuant to Section 255 and 254 (a) of the Companies Law, Extraordinary Transactions pursuant to Section 271 (1) and release, insurance and undertaking to indemnify officers, in effect as at the date of the report:

4.16.1 Indemnity: The Company's Board of Directors resolved, on March 18, 2004 (and the resolution was approved by the General Meeting of the Company's Shareholders of April 13, 2004) to undertake to the officers of the Company that the Company would indemnify them, in advance, in the events set forth hereinbelow, in an amount that will not exceed 25% of the Company's shareholders' equity, as recorded in its financial statements on the date of the indemnity, with regard to all the officers. This amount will be added to the amount of all insurance benefits in respect of the types of determining events, which the Company will receive from time to time under any officers' liability insurance. The determining events are:

1. Acts in connection with investments (including investments that were not actually implemented) made by the Company, a subsidiary or a related company (as defined in the Securities Law) in various corporations, whether prior to or after effecting the investment, including the engagement in the transaction, the execution of the transaction, the follow-up and supervision of the investment after it was made, and any act performed by an officer in connection therewith.

2. The issuance of securities (including an issuance of securities that was not actually implemented), including, without derogating from the generality of the aforementioned, the offering of the securities to the public pursuant to a prospectus, a private placement, or the offering of securities in any other manner.

3. A transaction as defined in Section 1 to the Companies Law, including the receipt of credit, a sale or purchase of assets or undertakings, including securities or the grant or receipt of a right in any of them, and any action entailed, whether directly or indirectly, in such a transaction.

4. A report or notice filed pursuant to the Companies Law or the Securities Law or any other law applicable to the Company, including the regulations enacted pursuant thereto, or pursuant to laws and regulations addressing similar subjects outside of Israel, or pursuant to rules or directives which are customarily practiced on the Stock Exchange or in the commercial arena in Israel or outside Israel, and all including non-submission of such a report or notice.

5. Acts in connection with the terms of employment of employees, including the handling of pension funds, provident funds, insurance funds and savings funds, options, and other benefits to employees, of any kind or nature.

6. Any act that caused bodily injury, disease, death, property damage, including loss of use of property.

7. Any act that gave rise to a failure to secure appropriate insurance arrangements.

8. A change to the Company's structure or reorganization or any decision in connection therewith, including, without derogating from the generality of the aforementioned, a merger, spin-off, change in the capital of the Company, a subsidiary, or related companies, the dissolution or sale thereof, the allotment of a security of any kind of the Company, a subsidiary or a related company, or the implementation of a Distribution (as defined in the Companies Law) or a purchase offer by or in connection with any of the above.

9. An expression, statement, including the expression of an opinion or position that was made in good faith by the officer in the course of and by virtue of his duty, and including in the course of the meetings of the General Meeting or Board of Directors of the Company, a subsidiary or a related company, or any of the committees of the Board of Directors.

10. Civil or criminal actions relating to the ordinary and on-going course of the Company's business, and also to extraordinary transactions of the Company.

11. Actions that were filed against an officer in connection with the dissolution or receivership of the Company, a subsidiary or a related company.

12. Derivative actions or class actions in connection with the Company, a subsidiary or a related company.

13. Actions in connection with merger, spin-off, or reorganization proceedings, etc.

14. Acts or decisions in connection with the preparation or approval of financial statements, business plans or forecasts in connection with the Company, a subsidiary or a related company.

15. Actions in connection with documents relating to the matters indicated hereinabove or in connection with acts or resolutions relating to the matters indicated hereinabove, or in connection with representations and undertakings that were given in connection with the matters indicated hereinabove, including such representations and undertakings that were given to third parties or to the Company, a subsidiary or a related company, or to any party on its behalf (including to its consultants, such as accountants, attorneys, etc.).

16. Any act or omission committed by the officer in the past, in his capacity as an officer of the Company, in respect of which he may be lawfully indemnified.

With regard to the events indicated hereinabove:

The "**Securities Law**" - The Israeli Securities Law, 5728-1968.
The "**Companies Law**" - The Israeli Companies Law, 5759-1999.
"**Security**" - as defined in Section 1 to the Companies Law.

4.16.2 On May 9, 2006 the General Meeting of Company Shareholders approved, further to the approval by the Audit Committee and the Company's Board of Directors on March 27, 2006 of change to Company's Articles of Association with regard to exemption, insurance and indemnification of office holders in order to align them with provisions of Amendment no. 3 (dated March 17, 2005) of the Companies Law, 5759-1999; and to approve exemption and indemnification and granting indemnification instruments to the officers of the Company as shall be from time to time and/or officers serving on behalf of the Company in other companies, as well as to Mr. Haim Shani and Mrs. Bareket Shani, the controlling shareholder of the Company and his wife, who also serve as officers of the Company (for details see immediate report concerning the results of the Company's general meeting of shareholders to approve a transaction with a "control holder" from May 9, 2006).

4.16.3 <u>Transaction with an interested party</u>: On August 11, 2005, the Company's Audit Committee and Board of Directors resolved to approve the amendment to the lease dated August 2, 2004 between the Company and the company controlled by Mr. Haim Shani (for additional details, see Section 4.8.3. hereinabove).

4.16.4 <u>Insurance</u>: The Company's Board of Directors resolved, on March 18, 2004 (and the resolution was approved by the General Meeting of the Company's Shareholders of April 13, 2004) to renew, from time to time, under similar conditions, the Company's Officers and Directors Liability Insurance policy (the Company's officers are insured against claims in respect of officers' liability up to an amount of US$ 2,000,000 per event and in total, in respect of damages that could occur during the period of the insurance, and a further US$ 400,000 in respect of legal defense costs in Israel. The basic coverage was extended to jurisdiction around the world, including the USA and Canada. The deductible applies only to the Company and not to the officer or director. The amount of the excess insurance, in respect of claims filed anywhere, is US$ 10,000), for additional periods of up to 18 months each time.

On January 26, 2005, the Company's Audit Committee and the Board of Directors resolved, in the course of a comprehensive review of the Company's insurance coverage in the various fields, to increase the aforementioned insurance coverage to an amount of US$ 5,000,000 per event and in total, in respect of damages that could occur during the period of the insurance (and a further US$ 1,000,000 in respect of legal defense costs in Israel), and to increase the Company's excess insurance in respect of claims filed in the USA and in Canada to an amount of US$ 50,000 per event. The extended period of the insurance shall apply effective from December 1, 2004 and until November 30, 2005, and retroactively from August 9, 1989, all subject to the approval of the General Meeting of the Company's Shareholders in accordance with Section 273 to the Companies Law, 5759-1999. In addition, it was resolved to authorize the Company's management to renew from time to time, under similar conditions, the Company's Officers and Directors Liability Insurance policy for additional periods of up to 18 months each time.

On April 12, 2005, the General Meeting of the Company’s Shareholders resolved to increase the coverage of the Officers and Directors Liability Insurance policy from an amount of $2,000,000 (two million US Dollars) per event and in total in respect of damages that could occur during the period of the insurance (and further $400,000 for legal defense costs in Israel), to an amount of US$ 5,000,000 per event and in total, in respect of damages that could occur during the period of the insurance (and a further US$ 1,000,000 in respect of legal defense costs in Israel). In addition, the General Meeting resolved to adapt the Company's deductible in respect of claims filed in the USA and in Canada from an amount of $10,000 per event to an amount of US$ 50,000 per event. The extended period of the insurance shall apply effective from December 1, 2004 until November 30, 2005, and retroactively from August 9, 1989. In addition, the General Meeting resolved to authorize the Company's management to renew from time to time, under similar conditions, the Company's Officers and Directors Liability Insurance policy for additional periods of up to 18 months each time (for details see section 4.8.7 above).

4.16.5 Transaction with an office holder: granting of a Special Bonus to Mr. Haim Shani, controlling shareholder in the Company, Chairman of the Board of Directors and CEO of the Company, in consideration for his contribution to the successful activities of the Company in the few years prior to 2004 in general, and in 2004 in particular, and for the Company registering a net profit in said year (for details about the amount of the bonus for the years 2005, 2006 and 2007, see Section 4.7.2 hereinabove).

4.16.6 Transaction with an office holder: On May 9, 2006 the General Meeting of Company Shareholders resolved to ratify the decision by the General Meeting of Company Shareholders on December 15, 2005 to grant options to purchase 10,000 Company Ordinary Shares to Mr. Ron Mishael, who serves an external director of the Company (for details see immediate report dated May 9, 2006).

4.16.7 Transaction with an office holder: On April 13, 2007, the CEO of the Company, Mr. Haim Shani, ceased to serve as Chairman of the Board of Directors (for details see Immediate Report on senior officer who ceased to hold office, dated April 15, 2007), and Mrs. Bareket Shani, who was serving as director and officer of the Company was appointed at that time to serve as Chairman of the Board of Directors. Mrs Shani is the wife of Mr. Haim Shani (for details see Immediate Report on the appointment of a senior officer, published on April 15, 2007). On July 3, 2007 Mrs. Bareket Shani ceased to serve as Chairman of the Board of Directors (for details see immediate report concerning a senior officer holder that ceased to hold office, dated July 3, 2007), and Mr. Haim Shani, who was serving as CEO of the Company was appointed on that day to be Chairman of the Board of Directors for a term of three years (for details see immediate report concerning the appointment of a senior officer (excluding the appointment of a director and excluding an individual appointed on behalf of a corporation) dated July 3, 2007). This resolution was approved by the General Meeting of Company Shareholders on July 3, 2007 (for details see section 1 of the immediate report on results of an annual general meeting of the Company's shareholders published on July 3, 2007).

4.16.8 On April 12, 2007 the Company's Board of Directors approved a private allotment of non-negotiable options to Mr. Jonathan Roman, a former employee of the Company, who now serves as a consultant and provides external services to the Company. The private allotment was a "private offer, which is neither material nor exceptional offer" within the meaning of these terms in Regulation 1 of the Securities Regulations (Private Offering of Securities in a Registered Company), 5760-2000. (For details see immediate report from April 15, 2007 concerning a private offering which is neither material nor exceptional , immediate report from April 29, 2007 including the Stock Exchange's letter concerning the approval, and amending report from June 19, 2007 amending the periods of exercise of the options that were published in the aforesaid report from April 15).

4.16.9 <u>Transaction with an office holder:</u> The Annual General Meeting of the Company's Shareholders, held on July 3, 2007, approved the resolutions of the Company's Board of Directors dated March 25, 2007, regarding Mr. Moshe Baraz, an external director of the Company, in connection with granting him indemnification, in accordance with the indemnification provisions under the Company's Articles of Association, the inclusion of Mr. Baraz in the insurance coverage of the directors and officers of the Company, and in addition the approval of the granting of annual remuneration and participation remuneration (for details see the amended report dated March 31, 2007 to the immediate report concerning the grant of an indemnity letter to an "office holder, dated March 31, 2007, and sections 2 and 3 of the Immediate Report on results of the meeting, published on July 3, 2007).

March 13, 2008

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Unitronics (1989) (R"G) Ltd.

By:

Mr. Haim Shani, CEO and Chairman of the Board of Directors

Zvi Livne, Director