

The Management's Report and Discussion and Analysis for the period from January 1 to September 30, 2011 (the "Report")

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Market Overview and Operational Activities

General economic conditions

Despite growing concerns about continuing economic growth, the Physical Security industry has performed well for the first nine months of this year. Even though we expect this trend to continue in Q4, we see clouds gathering on the horizon that could affect worldwide economic conditions. Caused by the sovereign debt crisis that currently mainly impacts several European states, risks to global financial and economic stability have increased dramatically in recent months. Predictions of slower economic growth in the coming months have been announced by numerous expert institutions and global concerns over the officials' abilities and willingness to solve the ongoing Euro debt problems have caused high volatility and turbulence in financial markets. In combination with credit downgrades of larger industrial countries this generated a sense of uncertainty across the entire worldwide financial and economic system. As a result from these concerns, nearly all stock markets recorded significant losses during the third quarter of 2011.

Even though concerns about economic growth and financial stability might affect buyer's budgets in Europe and North America, market experts anticipate that they will have less impact in Brazil, Russia, India and China, where growth in demand for security products currently is much higher.

There is only one solution to reducing the impact of these events or even nullify them; and that is continue with the innovation programmed of delivering more effective security systems at lower prices.

This is the reason for the security industry coming out of the recession in 2009 in a much better shape than most other industries. It has consistently delivered more for less and more importantly provided increasing rates of return on security investments. Now has to be the time to dig even deeper and increase all efforts in developing wireless technology that meets customers' needs.

The security industry has grown significantly over the past 10 years. Despite the 2008 recession and weak recovery, the market for security electronics has continued to grow, albeit at a slower pace, customers do not have the same capital to invest in security, but the industry was still growing at 5 to 6 percent per annum even over the past three years.

One reason why it remained growing through the recession was it began to deliver more value to end users. The industry has been innovative both technically and commercially and has produced better products at lower prices that deliver on ROI; this is why buyers are investing in new systems.

The home automation market and control systems market has reached the world of standards, protocols and data distribution systems; which allows the home automation control structures such as security systems, and lighting systems to interact and integrate with each other.

The wide adoption of Internet across the globe has resulted in the growth and advancement of home automation and control market. The flexibility to control and monitor home automation and control systems from any point even out and far from homes is possible through Internet. These systems are also accessed and monitored via smartphone through message alerts.

The global home automation and control systems market is estimated to grow from US\$16.9 billion in 2011 to US\$35.6 billion in 2016 at a CAGR of 16.1%.

The “mobile revolution” has changed the way we consume and interact with information, and security is one industry that can take full advantage of increasingly capable mobile devices and faster data speeds. According to IMS Research, more than 420 million smartphones will be sold in 2011, and annual sales will exceed one billion devices by the end of 2016, thanks to low-cost handsets becoming readily available. Another research from Ovum predicts that global mobile phone shipments will reach US\$ 1.77 billion by 2016.

Business Overview

Electronics Line 3000 Ltd (“the Company”) is a pioneer in next-generation security solutions for the residential and small commercial markets. The Company designs and produces cutting-edge solutions for security and control of living and working environments. EL provides comprehensive security protection, as well as sophisticated system and home management functionality, for optimal comfort, safety and peace of mind. This new industry standard is further upgraded with enhanced remote management capabilities that give homeowners instant access to their system from anywhere in the world.

In March 2010 RISCO Group, a leading provider of integrated security solutions, acquired control interest in the Company. RISCO Group’s intention is to maintain the Company's independent standing in the market and its product offerings by growing the Company to become the residential arm of RISCO Group by expanding the product portfolio into video and management solutions together with its major partners worldwide.

In order to increase the Company's global coverage and have better penetration into new and existing markets, the Company entered, on August 2010, into management and distribution agreements with Risco Ltd. (“Risco”), as Risco has the facilities to import, promote, sell, market and distribute the products in the territory (as defined in the agreement) and is willing to act as the supplier's non-exclusive distributor of the “Products in the Territory”.

During 2011, the Company has outsourced its production activities both to sub-contractors and to Risco in order to achieve better efficiency and margins.

Due to the reduction of costs and streamlining of production, this reorganization entails an increase in profitability. The Company believes that this will have a positive effect on its financial results of 2011.

The Company is reorganizing its sales force in order to achieve a better coverage in its target markets. Mr. Douglas Luscombe, the Company's CEO, was located in the UK, several new Regional Sales Managers (RSM) were assigned to cover the rest of Europe.

The Company has a presence, and believes it is well positioned in important markets around the world, in particular Northern and Western Europe and consistently strengthens its position in additional regions in Latin America, APAC and more. The Company’s brand is associated with high quality products and solutions.

The Company continues to develop and expand its marketing and sales capabilities with a focus on strategic customers and markets, while at the same time, providing more marketing and technical support to existing customers due to the tough economic situation in certain countries.

Products and Product Families

The EL Application Server (**ELAS**) is a 24/7 dedicated application server, which provides an answer to the growing demand for customer autonomy. The ELAS offers private remote access to EL security systems, allowing homeowners to easily check, activate, modify and communicate with their security system from anywhere in the world, through web-based or smartphone applications.

The sophisticated **iConnect Two- Way Wireless** system, with its sleek design, serves as the command center for a residential and small commercial Security and Home Automation network.

Powered by the full range of ELAS remote management functions, iConnect effortlessly integrates remote signaling from end-users, monitoring stations, service providers and technicians. The ELAS enables remote programming and maintenance of the iConnect system by Internet or smartphones, built-in interface with PSTN/GSM/GPRS communication modules, configuration of email and SMS event notification to users, and much more.

The two-way wireless RF technology built into iConnect also enables the use of PIR Cameras for event triggered video images and clips, as well as video verification. The compatible EL two-way peripherals communicate with the iConnect control panel and respond to RF signals with top-level data security. Designed for superior efficiency, the peripherals only respond to signals when the control panel is armed, and then they act with enhanced speed to minimize energy consumption and signal traffic congestion.

An additional product line, **CommPact** has been introduced to the market during this quarter.

CommPact, named for its streamlined, space-saving design (21x15.2x4cm), offers cost-effective security and connectivity, with all the essential functions of one-way wireless technology available in one small high-powered package.

The simple wireless installation and advanced remote management capabilities of CommPact provide an ideal value-for-money solution, which allows users to enjoy a complete sense of control and peace of mind.

CommPact's remote management is driven by the ELAS, which enables a virtual presence via video look-in on the premises. The advanced features include remote programming and maintenance of the CommPact system by Internet or smartphone, built-in interface with PSTN/GSM/GPRS communication modules, configuration of email and SMS event notification to users, and stand-alone two-way audio capability.

An additional prominent product family is **Prime** product lines. An established, field-proven solution using one-way wireless FM technology, Prime features modular flexibility. Security, safety and comfort receive equal priority, with features that enable Home Automation.

The robust Prime system takes advantage of PSTN and/or GSM connectivity and is compatible with all of EL's wireless keypads and other peripherals. Service providers and end-users can customize Prime in all its essential functions: SMS event notifications, remote installation of programs and upgrades, audio communication, range extension and more.

Operating and Financial Review

During the period from January 1 to September 30 of fiscal 2011 ("Reporting Period") a new business plan for the Company has been put in place.

As part of that plan the Company had to complete development of its new product line (ELAS, iConnect and CommPact), restructure its sales division, outsource its production activity and increase its operating expenses efficiency.

The Company estimates that future sales will benefit from the recent launch of new products and along with the new business plan will have a positive effect on its financial results of 2011 and beyond.



Earnings

The Company's revenues in the Reporting Period amounted to US\$ 18.4 million, compared to revenues of US\$ 21.8 million during the comparable period last year.

Revenues for the third quarter of 2011 were US\$ 7.0 million, compared to US\$ 7.6 million for the same period last year.

As part of the new products policy the company had decided to streamline its product portfolio. The discontinuation of low-margin products also impacted the Company's turnover in the Reporting Period.

The decrease in revenues during the second quarter of 2011 was caused by the change of production to outsourcing which temporarily resulted in a large customer orders backlog that still will affect the 2011 full year revenue.

However, based on the current orders on hand, the Company expects to end 2011 with a turnover of approximately US\$ 24 million.

The gross profit in the Reporting Period amounted to US\$ 6.5 million (35% from sales) compared to US\$ 7.0 million (32% from sales) in the comparable period of the previous year. Gross Profit in the third quarter of 2011 was US\$ 3 million (43% from sales) compared to US\$ 2.5 million (33% from sales) for the same period last year.

During 2011, the Company successfully implemented several streamlining measures, which had a positive effect on the Company's financial results. The major improvement of the gross margin during the third quarter mainly was due to the Company's decision to outsource its production activities to sub-contractors and to lower than expected operating costs during the quarter.

Although the Company's sales in the first nine months of the year decreased compared to the corresponding period in 2010, the Company's operating profit, profit before taxes and net profit increased.

Research and development expenses, amounted to US\$ 1.3 million compared to US\$ 1.4 million in the comparable period of last year. Research and development costs for the third quarter of 2011 amounted to US\$ 472,000 compared to US\$ 407,000 in the comparable period of 2010.

Research and development expenses during the period include periodic amortization of capitalized payroll costs related to CommPact development in a previous period.

Sales and marketing expenses amounted to US\$ 2.1 million during the Reporting Period, compared to US\$ 2.8 million for the comparable period of last year. Sales and marketing expenses for the third quarter of 2011 amounted to US\$ 757,000 compared to US\$ 645,000 in the comparable period of 2010.

General and administrative expenses amounted to US\$ 1.5 million during the Reporting Period, compared to US\$ 2.5 million for the comparable period of last year. General and administrative expenses for the third quarter of 2011 amounted to US\$ 598,000 compared to US\$ 971,000 in the comparable period of 2010.

The decrease in general and administrative expenses is due to a new business plan that was put in place during 2010 in order to increase efficiency and save expenses in connection with the implementation of a management service agreement between the Company and Risco as mentioned above.

Other Expenses net amounted to US\$ 303,000 during the Reporting Period, compared to US\$ 2.0 million for the comparable period of last year. Other Expenses net for the third quarter of 2011 amounted to US\$ 209,000 compared to US\$ 958,000 in the comparable period of 2010.

High Other expenses net during 2010 relates to a new business plan that was put in place, as mentioned above, of which the Company accelerated depreciation expenses in respect of leasehold improvements in total amount of US\$ 2.0 million.

The Company's operating profit amounted to US\$ 1.2 million during the Reporting Period, compared to an operating loss of US\$ 1.8 million in the comparable period of last year. Operating profit in the third quarter of 2011 amounted to US\$ 968,000, compared to an operating loss of US\$ 431,000 in the comparable period of 2010.

Financing expenses net amounted to US\$ 138,000 during the Reporting Period; compared to US\$ 603,000 for the comparable period of last year. Financing income net for the third quarter of 2011 amounted to US\$ 78,000 compared to expenses of US\$ 353,000 in the comparable period of 2010.

Profit before taxes on income amounted to US\$ 1.1 million during the Reporting Period, compared to a loss of US\$ 2.4 million for the comparable period of last year. Profit before taxes on income for the third quarter of 2011 amounted to US\$ 1 million compared to a loss of US\$ 784,000 in the comparable period of 2010.

Tax expenses related to the UK subsidiary amounted to US\$ 76,000 during the first nine months of 2011, compared to US\$ 104,000 for the comparable period of last year.

The Company ended the Reporting Period with a net profit of US\$ 980,000 compared to a loss of US\$ 2.5 million for the comparable period of last year and. Net profit in the third quarter of 2011 amounted to US\$ 1.0 million compared to loss of US\$ 833,000 for the third quarter of 2010.

Financial Position

Following the managing intention to sell its UK-subsiary, all assets and liability of the subsidiary were classified as held for sale in the financial report. In order to compare between the periods, assets and liabilities of the subsidiary are consolidated with the assets and liabilities of the ongoing operations:

The Company's cash and cash equivalents as at September 30, 2011 (hereinafter: "the Reporting Date") were US\$ 760,000, compared to US\$ 1.0 million on December 31, 2010.

The reduction is mainly due to repaid loan's principals in the amount of US\$ 222,000.

The Company's trade receivables on the Reporting Date were US\$ 4.3 million, compared to US\$ 3.0 million on December 31, 2010.

The Company's prepaid expenses, other accounts receivables, advance payments to suppliers and income tax receivables on the Reporting Date were US\$ 2.1 million, compared to US\$ 1.8 million on December 31, 2010.

The Company's inventories on the Reporting Date were US\$ 3.4 million compared to US\$ 5.5 million on December 31, 2010. The decrease of inventory was caused by the change of production to outsourcing. As of the Reporting Date the company is holding only a finished goods inventory.

Net investment in non-current assets, less amortization, on the Reporting Date amounted to US\$ 1.9 million, and a US\$ 2 million investment on December 31, 2010.

The short term credit balance from banks and others on the Reporting Date amounted to US\$ 1.3 million, compared to US\$ 3.5 million on December 31, 2010.

The decrease of short term credit from the banks is due to the repayment of short term loans and classified loans as long term loans in order to comply with the bank covenants.

The Company's trade payables as of the Reporting Date were US\$ 4.5 million compared to US\$ 5 million on December 31, 2010.

Other current liabilities, accrued expenses and income tax payable were US\$ 2.1 million, compared to US\$ 2.3 million on December 31, 2010.

Long term loans were US\$ 1.8 million on the Reporting Date compared to US\$ 1.1 million on December 31, 2010.

As of the Reporting Date, the Company complies with banks covenants.

Financial Ratios	September 30, 2011	December 31, 2010
Current Ratio	1.3	0.76
Quick Ratio	1.1	0.4

Cash Flow

During the reporting Period, net cash provided by operating activities was US\$ 186,000 compared to US\$ 1.8 million used in operating activities during the comparable period of last year.

During the reporting Period, the Company directed US\$ 156,000 towards investment activities, compared to US\$ 137,000 during the comparable period last year.

During the reporting Period, cash used in financing activities amounted to US\$ 222,000, compared to US\$ 1.1 million provided during the comparable period last year.

During the nine month of fiscal 2011, the Company repaid bank loans principals in the amount of US\$ 1.4 million and received short-term loans from a related party in the total amount of US\$1.2 million.

Additional information

Shareholders' equity as at September 30, 2010 amounted to US\$ 2.3 million, a ratio of 18.7% to the total balance sheet, compared to a deficit of US\$ 3.5 million, as at December 31, 2010.

During the Reporting Period The company's special general meeting of shareholders approved issuance of 3,550,000 new shares to Risco Ltd. for a total consideration of NIS 17,750,000 (approximately US\$ 5 million) which strengthened the Company's financial position and led to a positive shareholder's equity in the reporting period. The shares were issued to Risco Ltd. on March 14, 2011. The issued share capital of the company now is NIS 68,564,240 and consists of 13,712,848 ordinary shares at NIS 5.00 par value each. As at September 30, 2011 the Company's authorized share capital is NIS 250,000,000.

The number of employees decreased from 149 as of December 31, 2010 to 32 as of September 30, 2011. The reduction was caused by the Company's decision to outsource administrative, distribution and production resources.

The consolidated interim financial statements of the Company and its subsidiaries as of September 30, 2011 have been prepared in accordance with the International Financial Reporting Standards (IFRS). An audit review has been conducted on the consolidated interim financial statements.



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SECURITY

Risks and Opportunities

The management report in the annual report for 2010 provides full details of risk factors that could affect the business performance of Electronics Line in section 5 "Risk Report" while business potential is discussed in section 6 "Outlook". There was no material change in the risk/opportunity profile of Electronics Line in the reporting period.

Events after the end of the reporting period

The Company is in negotiations to settle the legal claim submitted by the landlord of the former premises. Based on the opinion of the Company's legal advisors, the financial statements have been updated accordingly.

Outlook

Future Projections

Looking ahead, the Company expects an increase in revenues from its strategic customers and markets, in particular, Northern and Western Europe. In these locations, the Company intends to address non-traditional marketing channels, in addition to the traditional security channels.

Recently, the Company has entered into a distribution agreement with a leading central monitoring station service provider ("CMS") in Poland. The agreement covers the distribution of the Company's innovative wireless security, safety, connectivity and control systems such as the iConnect and CommPact solutions and appending peripheral products.

In addition, the Company has signed a distribution agreement with Risco Ltd. and its subsidiaries, which will broaden the Company's marketing and sales as well as logistic global coverage.

The Company plans to focus on its 2-way-wireless iConnect product line and its PIR Camera Detector with a built-in camera for video verification, which will support a wide range of solutions and services that the Company offers to its customers. The Company believes that the new solution will be well received in the market place.

The Company is outsourcing its production activities, both to sub-contractors and to Risco Ltd., in order to achieve better efficiency and margins. The Company expects that this, among with other value added resulting from synergies with Risco Ltd., will have a positive effect on its financial performance and that it will significantly improve earnings and, as a consequence of this, result in an earnings turnaround in 2011.

For fiscal year 2011, the Company expects a turnover of approx. US\$ 24 million and a net profit of around US\$ 1.2 million.

Responsibility Statement

To the best of our knowledge and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the interim management report of the Company includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company for the remaining months of the financial year.

Douglas Luscombe Moshe Alkelai
CEO Chairman of the Board

Rishon Le Zion, November 20, 2011

ELECTRONICS LINE 3000 LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2011

ELECTRONICS LINE 3000 LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2011

(IN U.S. DOLLARS)

UNAUDITED

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AUDITORS' REVIEW REPORT**To the shareholders of****ELECTRONICS LINE 3000 LTD.****Introduction**

We have reviewed the accompanying interim condensed consolidated financial statements of Electronics Line 3000 Ltd. and its subsidiaries ("the Group"), as of September 30, 2011, comprising of the interim consolidated statement of financial position as of September 30, 2011 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine and three months periods then ended. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with international financial reporting standard IAS 34, "Interim Financial Reporting" (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Tel-Aviv, Israel
November 20, 2011KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

INTERIM CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	September 30,		December 31,
	2011	2010	2010
	Unaudited		Audited
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	96	1,349	983
Trade receivables	2,211	3,015	2,970
Income taxes receivable	271	264	276
Other accounts receivable	1,860	835	1,484
Inventories	1,512	4,441	5,494
	5,950	9,904	11,207
Assets classified as held for sale (see Note 7)	6,121	-	-
<u>Total current assets</u>	12,071	9,904	11,207
NON-CURRENT ASSETS:			
Property, plant and equipment:			
Cost	13,760	15,952	15,907
Less - accumulated depreciation	13,278	13,317	13,920
	482	2,635	1,987
Property, plant and equipment, net	428	504	504
Intangible assets	215	215	215
Deferred taxes	73	49	97
Security deposits	1,198	3,403	2,803
<u>Total non-current assets</u>	1,198	3,403	2,803
<u>Total assets</u>	13,269	13,307	14,010

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	<u>September 30,</u>		<u>December 31,</u>
	<u>2011</u>	<u>2010</u>	<u>2010</u>
	<u>Unaudited</u>		<u>Audited</u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks	1,235	4,032	3,517
Short-term credit from related parties	-	2,817	3,817
Related party	3,007	3,461	-
Trade payables	555	519	5,024
Income taxes payable	-	251	149
Other current liabilities	1,403	680	2,162
	<u>6,200</u>	<u>11,760</u>	<u>14,669</u>
Liabilities associated with assets classified as held for sale (see Note 7)	<u>3,124</u>	<u>-</u>	<u>-</u>
<u>Total</u> current liabilities	<u>9,324</u>	<u>11,760</u>	<u>14,669</u>
NON-CURRENT LIABILITIES:			
Loans from banks	845	1,114	1,065
Employee benefit liabilities, net	99	386	165
Other long-term liabilities	518	-	1,201
Deferred taxes	-	-	379
<u>Total</u> non-current liabilities	<u>1,462</u>	<u>1,500</u>	<u>2,810</u>
EQUITY:			
Share capital	15,933	10,933	10,933
Additional paid-in capital	6,458	6,488	6,453
Foreign currency translation reserve	1,380	1,506	1,413
Hedge reserve	-	24	-
Accumulated deficit	<u>(21,288)</u>	<u>(18,904)</u>	<u>(22,268)</u>
<u>Total</u> equity	<u>2,483</u>	<u>47</u>	<u>(3,469)</u>
<u>Total</u> liabilities and equity	<u>13,269</u>	<u>13,307</u>	<u>14,010</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

November 20, 2011			
Date of approval of the financial statements	Moshe Alkelai Chairman of the Board	Douglas Luscombe President and CEO	Lior Meidan Director & Responsible for the Financial Activities

INTERIM CONSOLIDATED STATEMENTS OF INCOME

U.S. dollars in thousands (except per share data)

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2011	2010	2011	2010	2010
	Unaudited		Unaudited		Audited
Revenues	18,420	21,832	6,995	7,640	26,717
Cost of revenues	11,956	*) 14,884	3,991	*) 5,090	18,338
Gross profit	6,464	6,948	3,004	2,550	8,379
Operating costs and expenses:					
Research and development	1,329	1,369	472	407	1,884
Selling and marketing	2,112	2,797	757	645	3,840
General and administrative	1,526	*) 2,533	598	*) 971	3,167
Other expenses, net	303	*) 2,029	209	*) 958	4,450
<u>Total operating costs and expenses</u>	<u>5,270</u>	<u>8,728</u>	<u>2,036</u>	<u>2,981</u>	<u>13,341</u>
Operating income (loss)	1,194	(1,780)	968	(431)	(4,962)
Financial income	166	19	84	-	62
Financial expenses	304	622	6	353	428
Income (loss) before taxes on income	1,056	(2,383)	1,046	(784)	(5,328)
Taxes on income	76	104	38	49	523
Net income (loss)	<u>980</u>	<u>(2,487)</u>	<u>1,008</u>	<u>(833)</u>	<u>(5,851)</u>
Earnings (loss) per share (basic and diluted) (in U.S dollars)	<u>0.07</u>	<u>(0.25)</u>	<u>0.07</u>	<u>(0.08)</u>	<u>(0.58)</u>

*) Reclassified, see note 2c.

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Nine months ended		Three months ended		Year ended
	September 30,		September 30,		December 31,
	2011	2010	2011	2010	2010
	Unaudited		Unaudited		Audited
Net income (loss)	980	(2,487)	1,008	(833)	(5,851)
Other comprehensive income (loss):					
Adjustments arising from translating financial statements of foreign operations	(33)	(82)	3	100	(175)
Loss on cash flow hedges	-	14	-	39	(10)
Total other comprehensive income (loss)	(33)	(68)	3	139	(185)
Total comprehensive income (loss)	947	(2,555)	1,011	(694)	(6,036)

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Year ended December 31, 2010					Total equity
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedges reserves	Accumulated deficit	
Balance as of January 1, 2010 (audited)	10,933	6,621	1,588	10	(16,417)	2,735
Loss	-	-	-	-	(5,851)	(5,851)
Other comprehensive loss:						
Financial statements of foreign operations	-	-	(175)	-	-	(175)
Loss on cash flow hedges	-	-	-	(10)	-	(10)
Total other comprehensive loss	-	-	(175)	(10)	-	(185)
Total comprehensive loss	-	-	(175)	(10)	(5,851)	(6,036)
Cost of share-based payments	-	(168)	-	-	-	(168)
Balance as of December 31, 2010 (audited)	<u>10,933</u>	<u>6,453</u>	<u>1,413</u>	<u>-</u>	<u>(22,268)</u>	<u>(3,469)</u>
	Nine months ended September 30, 2011 (unaudited)					
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedges reserves	Accumulated deficit	Total equity
Balance as of January 1, 2011 (audited)	10,933	6,453	1,413	-	(22,268)	(3,469)
Net income	-	-	-	-	980	980
Other comprehensive loss:						
Financial statements of foreign operations	-	-	(33)	-	-	(33)
Total other comprehensive loss	-	-	(33)	-	-	(33)
Total comprehensive income (loss)	-	-	(33)	-	980	947
Issuance of share capital	5,000	-	-	-	-	5,000
Cost of share-based payments	-	5	-	-	-	5
Balance as of September 30, 2011 (unaudited)	<u>15,933</u>	<u>6,458</u>	<u>1,380</u>	<u>-</u>	<u>(21,288)</u>	<u>2,483</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Nine months ended September 30, 2010 (unaudited)					
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedges reserves	Accumulated deficit	Total Equity
Balance as of January 1, 2010 (audited)	10,933	6,621	1,588	10	(16,417)	2,735
Loss	-	-	-	-	(2,487)	(2,487)
Other comprehensive loss: Financial statements of foreign operations	-	-	(82)	-	-	(82)
Income on cash flow hedges	-	-	-	14	-	14
Total other comprehensive loss	-	-	(82)	14	-	(68)
Total comprehensive loss	-	-	(82)	14	(2,487)	(2,555)
Cost of share-based payments	-	(133)	-	-	-	(133)
Balance as of September 30, 2010 (unaudited)	<u>10,933</u>	<u>6,488</u>	<u>1,506</u>	<u>24</u>	<u>(18,904)</u>	<u>47</u>

	Three months ended September 30, 2011 (unaudited)					
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedges reserves	Accumulated deficit	Total Equity
Balance as of July 1, 2011	15,933	6,457	1,377	-	(22,296)	1,471
Net income	-	-	-	-	1,008	1,008
Other comprehensive income: Financial statements of foreign operations	-	-	3	-	-	3
Total other comprehensive income	-	-	3	-	-	3
Total comprehensive income	-	-	3	-	1,008	1,011
Cost of share-based payments	-	1	-	-	-	1
Balance as of September 30, 2011 (unaudited)	<u>15,933</u>	<u>6,458</u>	<u>1,380</u>	<u>-</u>	<u>(21,288)</u>	<u>2,483</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Three months ended September 30, 2010 (unaudited)					Total Equity
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedges reserves	Accumulated deficit	
Balance as of July 1, 2010	10,933	6,486	1,406	(15)	(18,071)	739
Loss	-	-	-	-	(833)	(833)
Other comprehensive income:						
Financial statements of foreign operations	-	-	100	-	-	100
Income on cash flow hedges	-	-	-	39	-	39
Total other comprehensive income	-	-	100	39	-	139
Total comprehensive income (loss)	-	-	100	39	(833)	(694)
Cost of share-based payments	-	2	-	-	-	2
Balance as of September 30, 2010 (unaudited)	<u>10,933</u>	<u>6,488</u>	<u>1,506</u>	<u>24</u>	<u>(18,904)</u>	<u>47</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**U.S. dollars in thousands**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2011	2010	2011	2010	2010
	Unaudited		Unaudited		Audited
<u>Cash flows from operating activities:</u>					
Net income (loss)	980	(2,487)	1,008	(833)	(5,851)
Adjustments to reconcile loss to net cash provided by (used in) operating activities:					
Adjustments to profit or loss items:					
Depreciation and amortization	390	2,527	99	1,112	3,153
Loss (gain) from sale of property, plant and equipment, net	(27)	(9)	-	-	7
Decrease in employee benefit liabilities, net	(140)	(20)	(3)	(46)	(156)
Cost of share-based payments	5	(133)	1	2	(168)
Taxes on income	76	104	38	49	523
Financial expenses, net	297	163	54	29	368
	601	2,632	189	1,146	3,727
Changes in operating asset and liability items:					
Increase in trade receivables	(1,381)	(95)	(1,541)	(502)	(98)
Increase in other accounts receivable	(383)	(73)	(382)	(199)	(715)
Decrease (increase) in inventories	2,091	66	(1,016)	221	(1,019)
Decrease (increase) in security deposits	24	25	11	-	(23)
Increase (decrease) in trade payables	(516)	(588)	1,173	(539)	1,012
Increase (decrease) in other long-term liabilities	(683)	66	(436)	152	1,201
Increase (decrease) in other current liabilities	(230)	(1,061)	513	(1,374)	(262)
	(1,078)	(1,660)	(1,678)	(2,241)	96
Cash paid and received during the period for:					
Interest paid	(297)	(163)	(54)	(29)	(368)
Income taxes paid	(20)	(114)	(3)	(53)	(161)
	(317)	(277)	(57)	(82)	(529)
Net cash provided by (used in) operating activities	186	(1,792)	(538)	(2,010)	(2,557)
<u>Cash flows from investing activities:</u>					
Investment in intangible assets	-	(97)	-	-	(112)
Acquisition of property, plant and equipment	(218)	72	(113)	-	(120)
Proceeds from sale of equipment	62	(112)	-	-	73
Net cash used in investing activities	(156)	(137)	(113)	-	(159)

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Nine months ended		Three months ended		Year ended
	September 30,		September 30,		December 31,
	2011	2010	2011	2010	2010
	Unaudited		Unaudited		Audited
<u>Cash flows from financing activities:</u>					
Increase (decrease) in short-term bank credit, net	(1,239)	100	(198)	160	117
Receipt of short-term loans from related parties	1,183	-	-	-	3,817
Repayment of long-term loans from related parties	-	2,677	-	2,677	(140)
Repayment of long-term loans from banks	(1,220)	(1,704)	(339)	(616)	(2,260)
Receipt of long-term loans from banks	1,054	-	-	-	-
Net cash provided by (used in) financing activities	(222)	1,073	(537)	2,221	1,534
<u>Exchange differences on balances of cash and cash equivalents of foreign operations</u>	(33)	(40)	70	145	(80)
Increase (decrease) in cash and cash equivalents	(225)	(896)	(1,118)	356	(1,262)
Cash and cash equivalents at beginning of period	983	2,245	1,876	993	2,245
Cash and cash equivalents at end of period	758	1,349	758	1,349	983
<u>Significant non-cash transactions:</u>					
Conversion of shareholders' debt into shares	5,000	-	-	-	-

The accompanying notes are an integral part of the interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands**

NOTE 1:- GENERAL

- a. Electronics Line 3000 Ltd. ("the Company") was incorporated in Israel in December 2002. The Company and its subsidiaries ("the Group") are engaged in the design, development, production, marketing and sale of electronic security with remote management solutions, and complementary products for the mass residential and small commercial markets. These solutions can be monitored and enable remote management of the premises for security, and automation and video application.
- b. These interim consolidated financial statements have been prepared in a condensed format as of September 30, 2011 and for the nine and three months then ended ("Interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual consolidated financial statements and the accompanying notes as of December 31, 2010 ("the annual financial statements") and for the year then ended.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of preparation of the interim consolidated financial statements:

The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in IAS 34, "*Interim Financial Reporting*".

The significant accounting policies and methods of computation adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual financial statements, except as noted below:

IAS 1 - Presentation of Financial Statements:

According to the amendment to IAS 1, the changes between the opening and the closing balances of each component of other comprehensive income may be presented in the statement of changes in equity or in the notes accompanying the annual financial statements. Accordingly, the Company has elected to present said disclosure in the statement of changes in equity.

The amendment is applied retrospectively from January 1, 2011.

IAS 24 - Related Party Disclosures:

The amendment to IAS 24 clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application.

The amendment is applied retrospectively from January 1, 2011.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands**

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- b. New IFRS Standards that have been issued but are not yet effective:

IAS 19R - Employee Benefits:

In June 2011, the IASB issued IAS 19R. The principal amendments included in IAS 19R are:

- Actuarial gains and losses will only be recognized in other comprehensive income and not carried to profit or loss.
- The return on the plan assets is recognized in profit or loss based on a discount rate used to measure the employee benefit liabilities, regardless of the actual composition of the investment portfolio.
- The distinction between short-term employee benefits and long-term employee benefits will be based on the expected settlement date and not on the date on which the employee first becomes entitled to the benefits.
- The cost of past services arising from changes in the plan will be recognized immediately.

IAS 19R is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter. Earlier application is permitted.

The Company is evaluating the possible impact of the adoption of IAS 19R but is presently unable to assess the effects, if any, on its financial statements.

- c. Reclassification:

Consistent with the annual financial statements, the Company changed the classification of expenses relating to accelerated depreciation in the statement of income from cost of revenues and general and administrative expenses to other expenses in order to properly reflect the nature of the expenses.

Comparative data were reclassified, and accordingly, \$ 2,038 thousand was reclassified from cost of revenues and general and administrative expenses to other expenses as of September 30, 2010.

See also Note 5c.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 3:- BANK COVENANTS

In May 2011 the Company entered into agreement with its main bank regarding new covenant as follows:

- a) Tangible equity to balance sheet ratio – at least 15% as of December 31, 2011, at least 20% as of December 31, 2012 and onwards.
- b) Debt to EBITDA ratio - will not be more than 5 as of December 31, 2011, will not be more than 4 as of December 31, 2012 and December 31, 2013 and will not be more than 3 as of December 31, 2014 and onwards.
- c) Operating profit - in each four consecutive quarters starting from January 1, 2012.

The Company's management believes that all its obligations due from these new covenants are expected to be met.

The total amount of the long-term loans from banks is \$ 2,080.

Moreover the company has fully repaid loans from two of its major banks, which removes the floating charge of the Company's assets.

NOTE 4: - OPERATING SEGMENTS

- a. General:

The Group operates in two geographical segments: Europe and other countries.

Management monitors the operating results of its geographical units separately for the purpose of making decision about resource allocation and performance assessment. Segment performance is evaluated based on segment profit.

The following expenses are managed on a group basis and are not allocated to operating segments: Company's research and development, Company's general and administrative and group financing.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 4: - OPERATING SEGMENTS (Cont.)

- b. Information about geographical segments:

	<u>Europe</u>	<u>U.S.</u>	<u>Other countries</u>	<u>Adjustments</u>	<u>Total - consolidated</u>
Nine months ended September 30, 2011 (unaudited)					
Segment revenues	<u>18,798</u>	<u>-</u>	<u>1,270</u>	<u>(1,648)</u>	<u>18,420</u>
Segment results	<u>3,236</u>	<u>-</u>	<u>562</u>	<u>(2,604)</u>	<u>1,194</u>
Nine months ended September 30, 2010 (unaudited)					
Segment revenues	<u>20,839</u>	<u>86</u>	<u>2,166</u>	<u>(1,259)</u>	<u>21,832</u>
Segment results	<u>1,665</u>	<u>(414)</u>	<u>687</u>	<u>(4,321)</u>	<u>(2,383)</u>
Year ended December 31, 2010 (audited)					
Segment revenues	<u>25,584</u>	<u>1,336</u>	<u>1,765</u>	<u>(1,968)</u>	<u>26,717</u>
Segment results	<u>3,243</u>	<u>(6)</u>	<u>626</u>	<u>(8,825)</u>	<u>(4,962)</u>

NOTE 5:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD

- a. In a private placement effected on March 14, 2011, the Company issued 3,550,000 Ordinary shares of the Company to the controlling shareholder, Risco Ltd., at a price per share of NIS 5.00, for a total consideration of NIS 17,750 thousand (approximately \$ 5,000) which was to through conversion of outstanding credit line to equity. The private placement was approved in a special general meeting of the Company's shareholders that took place on February 16, 2011.
- b. On June 14, 2011 additional allocation of 380,000 options to the Company's CEO, directors and top management of Risco Ltd., the controlling shareholders, was approved by the audit committee and the board of directors.

The option grant was subject to the approval of the meeting of the Company's shareholders. The approval was received on October 10, 2011.

The options granted will expire 10 years after the date of grant and vest over a period of 3 years. The exercise price of the options granted is € 1.5.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands****NOTE 5:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (Cont.)**

- c. Further to Note 1(d) and Note 7 to the annual financial statements, the Company accelerated the depreciation expense in respect of leasehold improvements and machinery and equipment over the expected useful period, which is due to the Company's decision to vacate the buildings of the Company's plant and administration and the decision to cease manufacturing within the Company.

As a result of the depreciation acceleration, the Company recorded in 2010 an expense in the approximate amount of \$ 2,502 and for the period ended September 30, 2011 an additional approximate amount of \$ 132.

- d. On July 31, 2011, EL USA Inc, the Company's subsidiary, has been liquidized. The liquidation was approved by the board of directors on June 14, 2011.
- e. Following the Board's resolution, dated July 13, 2011, to up-listing from the General Standard to the Prime Standard, the Deutsche Bourse announced the Company's transfer to trading in the Prime Standard segment on August 15, 2011.

NOTE 6:- TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties:

	Nine months ended September 30, 2011	Year ended December 31, 2010
Manufacturing services agreement:		
Raw material sales *)	(2,183)	(76)
Purchases of finished goods	2,699	-
Management service agreement	225	122
Interest due from line of credit	25	41
Research and development services (see b below)	580	-

*) Based on Company's cost, used for manufacturing.

***) Transactions with related parties for the Nine months ended at September 30, 2010 were immaterial.

- a. During the reported period, the Company's controlling shareholder, Risco Ltd., purchased raw materials in the approximate amount of \$ 2,500 to be used by subcontractor from China for the production of finished goods, which were billed back-to-back through the Company.

The transaction was approved by the audit committee and board of directors and on October 10, 2011 was approved by the Company's shareholders.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands****NOTE 6:- TRANSACTIONS WITH RELATED PARTY (Cont.)**

- b. After approval by the Company's audit committee and the Company's shareholders, on June 16, 2011, the Company had entered into an R&D service agreement with a service provider controlled by the controlling shareholder of the Company's largest and controlling shareholder. The agreement complies with arm's length prices.

NOTE 7:- HELD-FOR-SALE

The Company's management intends to sell its subsidiary and currently is in a final stage of negotiations, accordingly, all the subsidiary assets and liabilities were classified as held-for-sale in the reported period.

The agreement is subject to the approval of the Board of Directors.

The major classes of assets and liabilities as held for sale are as follows:

	September 30, 2011
Assets:	
Cash and cash equivalents	662
Trade receivables	2,138
Other accounts receivable	23
Inventories	1,910
Property, plant and equipment, net	1,388
	<hr/>
Assets classified as held for sale	6,121
	<hr/>
Liabilities:	
Short-term credit from banks	109
Other current liabilities	959
Trade payables	705
Loans from banks	1,001
Deferred taxes	350
	<hr/>
Liabilities associated with the assets classified as held for sale	3,124
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Net assets held for sale	2,997
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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands**

NOTE 8:- SIGNIFICANT EVENTS AFTER THE REPORTED PERIOD

- a. A legal claim by a landlord in the approximate amount of \$ 770 has been submitted to the Company as a consequence of controversy regarding the rental payment. In the reporting period, according to the negotiations conducted to reach a settlement agreement and according to the estimate of the Company and its legal advisors as to the costs deriving from this agreement, the Company recorded an adequate provision in its financial statements.
- b. In early November 2011, a Memorandum of Law for Socioeconomic Change (Legislative Amendments) (Taxes), 2011 ("the Memorandum of Law"), was published. The Memorandum of Law proposes, among others, to cancel, effective from 2012, the scheduled progressive reduction in the corporate tax rate. The Memorandum of Law also proposes to raise the corporate tax rate to 25% in 2012. In view of the proposed increase in the corporate tax rate to 25% in 2012, the real capital gains tax rate and the real betterment tax rate will also be increased.

The deferred tax balances included in the financial statements as of September 30, 2011, are measured using the tax rates which were in effect as of the date of the financial statements and do not take into account the potential effects of the Memorandum of Law. Any such effects will be recognized in the financial statements the date of which is subsequent to the date the Law is substantively enacted.

The Company estimates that the approval by the Israeli Parliament of the Memorandum of Law as described above is not expected to have a material effect on the financial statements.
