Unitronics (1989)(R"G) LTD.

Quarterly Report as of March 31, 2005

Financial Statements included in this report have been prepared in accordance with Israeli GAAP (Generally Accepted Accounting Principles)

Note: The Company's accounts are administered in NIS. All figures for all periods specified in this report were translated for convenience at the same exchange rate of the EUR against the NIS (New Israeli Shekel) as of March 31, 2005 (1 EUR = 5.6488 NIS).

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This Report contains forward-looking information within the meaning of Section 32A of the Israeli Securities Law, 5728-1968, including forecasts, 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 set out in this Report below.

CHAPTER A – PREFACE

1. General

Company's Name:	Unitronics (1989) (R"G) Ltd. (hereinafter: the "**Company**" or "**Unitronics**")
Company No.:	520044199
Address:	Unitronics House, Arava Street, Airport City, P.O.B. 300, Israel 70100
Email Address:	investors@unitronics.com
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2. Description of the Company and its business environment

Unitronics is engaged through its Products Department in design, development, production, marketing, and sale of industrial automation products, mainly programmable logic controllers (hereinafter: "**controllers**" or "**PLCs**"). Controllers are computer based electronic products (hardware and software) which serve for control and supervision of industrial manufacturing, storage, retrieval and logistics systems and machines. The Company is also engaged, through its Systems Department, in planning service, establishment service, and maintenance service in the framework of projects for mechanization, computerization and integration of computerized production and/or logistic systems, mainly automatic warehouses.

The Company's PLCs are distributed through over one hundred distributors (and a wholly-owned subsidiary) in about fifty countries throughout Europe, Asia, America and Africa, and the services of the Systems Department are provided mainly to customers in Israel, and in a few cases, also outside Israel.

The Company operates from facilities at "Unitronics Building", an offices and industrial building part of which is leased by the Company. Unitronics Building is located at Airport City which is adjacent to Israel's Ben-Gurion Airport, and the offices of the Company and all the rest of its facilities in Israel are located there.

Since May 2004, the shares of the Company are traded on the Tel Aviv stock exchange, and since September 1999 in Brussels, Belgium, (first on the EuroNM Stock Exchange and since year 2000 on the EuroNext Stock Exchange).

3. Main Events in the Period of the Report and prior to its Publishing

3.1 Contract to Supply Automatic Warehouse and Conveying Systems to a Client in Israel

The Company executed an agreement dated January 9, 2005 (in this section, the "**Agreement**") with an Israeli client engaged in production and marketing of packaging and plastic products (the "**Client**"), for the supply and installation of an automated logistic system which includes storage control apparatus and software, and an automatic conveying system for pallets, to be installed at the Client's facility in Israel (the "**Project**"), further to Unitronics' installation of a similar system for such client in 2001.

Pursuant to the Agreement, the system to be installed in the Project will be based upon Unitronics' PLCs, other control software tools developed by Unitronics as well as other components and elements to be supplied and installed by certain sub-contractors, under Unitronics' supervision. In consideration for the design and supervision of the Project and for the provision of Unitronics' PLCs and software, the Client undertook to pay Unitronics a total amount of approximately 446 thousand Euro (about NIS 2.5 million), including V.A.T subject to the achievement of certain milestones. The project is targeted for completion in the fourth quarter of 2005.

3.2 Expansion of a Project to Supply Control, Software and Conveying Systems to a Client in Israel

The project underlying an agreement dated July 15, 2004 (in this section, the "**Agreement**") with an Israeli client engaged in import, processing, production and marketing of metal materials and products (in this section, the "**Client**"), for the supply and installation of an automated logistic system which includes storage control apparatus and software, and an automatic conveying system for pallets and containers, to be installed at the Client's facility in Israel (in this section, the "**Project**"), has been increased in magnitude, further to a number of updates to the Agreement from time to time, and following an additional update from January 17, 2005 (all such updates, collectively, the "**Supplement**").

Pursuant to the Agreement and the Supplement, the system to be installed in the Project will be based upon Unitronics' PLCs, other control software tools developed by Unitronics as well as other components and elements to be supplied and installed by certain sub-contractors, under Unitronics' supervision. In accordance with the Agreement and the Supplement, in consideration, the Client undertook to pay Unitronics an aggregate total amount of approximately NIS 23.5 million (approximately EUR 4.2 million), plus V.A.T (an increase of approximately NIS 8.5 Million, plus VAT, as compared to the Agreement) in agreed mile-stone linked installments and subject to certain work and equipment to be supplied under the Project, including by sub-contractors to be retained for providing certain services and components in the Project. According to the Agreement and the Supplement, the Project is intended to be completed through the second quarter of 2005. Upon its completion, such system is expected to be one of the largest of its kind in Israel, and it is intended to include seven automatic cranes which are designed to serve in excess of forty thousand storage spaces.

3.3 Special Bonus to the Company's CEO

In March 2005 the Company's audit committee and board of directors resolved, to grant Mr. Haim Shani - the Company's Chief Executive Officer and chairman of the board of directors (hereinafter: "**Mr. Shani**"), a bonus (the "**Special Bonus**"), as consideration for his contribution to the Company's successful performance over the previous years in general and during the year 2004 in particular. The Special Bonus will be in an amount of NIS 400,000 (approx. Euro 69,000).

In addition, the Company will pay to 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. The main reasons of the Audit Committee and Board to approve the bonus were:

- Mr. Shani has considerably contributed to the business success of the Company in recent years in general and during 2004 in particular.
- Under Mr. Shani's leadership the Company completed the public offer of its securities and their listing for trade in the Euronext stock exchange in Brussels in 1999 and on the Tel-Aviv Stock Exchange in 2004.
- Mr. Shani's salary according to his employment agreement is relatively low (a monthly salary of approximately $15,000) compared to other companies with similar business scope.
- The Company shifted in the recent years under Mr. Shani's management from "Losses" to "Operational Profits" and even "Net Profits". In the recent years Mr. Shani led the Company through a permanent growth which reflected in the constant growth in the Company's revenues thorugh13 consecutive calendar quarters.
- Mr. Shani's willingness to assist the Company and to reduce his salary by 5% during 2003 and in particular in view of his contribution to the success of the Company, the Audit Committee and Board resolved that under these circumstances the proposed bonus and its amount are appropriate and that such a bonus is in the best interest of the Company and all its shareholders.

On April 12, 2005, the general meeting of the company's shareholders approved the above resolutions. Provision for those bonuses for the periods till March 31, 2005 will be included in the second quarter of the year.

CHAPTER B – BOARD OF DIRECTORS REPORT

1. The Financial Status

Assets

The total assets according to the consolidated balance sheet of the Company as of March 31, 2005 amounted to approximately NIS 92,093 thousand (about EUR 16,303 thousand) as compared to approximately NIS 93,986 thousand (about EUR 16,638 thousand) as of December 31, 2004. This change is mainly attributable to the decrease in the accounts receivable (trade) and inventory items, as specified below.

In the total of the cash, cash equivalents and marketable securities, no significant change was registered, and it amounted to approximately NIS 49,575 thousand (about EUR 8,776 thousand) as of March 31, 2005 compared to approximately NIS 49,083 thousand (about EUR 8,689 thousand) as of December 31, 2004.

In the accounts receivable (trade) item, a decrease was registered from approximately NIS 6,862 thousand (about EUR 1,215 thousand) as of December 31, 2004 to approximately NIS 4,721 thousand (about EUR 836 thousand) as of March 31, 2005. This decrease is mainly attributable to the decrease in the accounts receivable from the Company's systems' activities resulting from performance of existing and new projects from the beginning of year 2005.

A decrease of about 12% was registered in the inventory item, from an amount of approximately NIS 9,785 thousand (about EUR 1,732) as of December 31, 2004 to approximately NIS 8,676 thousand (about EUR 1,536) as of March 31, 2005. The decrease is mainly attributable to a continual improvement in the Company's procurement procedures and production planning, according to the Company's policy.

Other assets as of March 31, 2005 amounted to approximately NIS 3,953 thousand (about EUR 700 thousand), as compared to NIS 4,157 thousand (about EUR 736 thousand) as of December 31, 2004, attributable mainly to deferred issuance expenses in connection with the convertible debentures issued to the public in accordance with the Israeli prospectus.

Liabilities

The aggregate short term credit amounted to approximately NIS 1,090 thousand (about EUR 193 thousand) as of March 31, 2005, as compared to NIS 1,127 thousand (about EUR 200 thousand) as December 31, 2004, and is mainly attributable to current maturities of long-term debts.

Accounts payable (trade) amounted as of March 31, 2005 to NIS 11,064 thousand (about EUR 1,958 thousand) as compared to NIS 13,730 thousand (about EUR 2,431 thousand) as of December 31, 2004. The decrease results mainly from the decrease in the accounts payable in connection with the Company's systems' activities, resulting from performance of existing and new projects from the beginning of year 2005.

Accounts payable (other) amounted as of March 31, 2005 to NIS 8,202 thousand (about EUR 1,452 thousand) as compared to NIS 7,895 thousand (about EUR 1,398 thousand) as of December 31, 2004. This increase results mainly from a growth in accrued expenses following the growth in system integration activities, and from an increase in liabilities to government institutions following the growth in revenues in the reported period as described below.

No significant change was registered in the long-term liabilities, amounting to NIS 50,308 thousand (about EUR 8,906 thousand) as of March 31, 2005 as compared to NIS 50,619 thousand (about EUR 8,961 thousand) as of December 31, 2004.

The working capital of the Company amounted to approximately NIS 45,104 thousand (about EUR 7,985 thousand) as of March 31, 2005 as compared to approximately NIS 44,324 thousand (about EUR 7,847 thousand) as of December 31, 2004. This increase results mainly from the changes in the reported period of the accounts receivable (trade) and inventory items, as described above.

The Company's shareholders equity as of March 31, 2005 increased to approximately NIS 21,429 thousand (about EUR 3,794 thousand), as compared to approximately NIS 20,615 thousand (about EUR 3,649 thousand) as of December 31, 2004. This increase arises mainly from the net profit of the Company in the reported period, as described below.

2. Operating Results

Revenues

The Company's revenues for the three months period ended March 31, 2005 amounted to approximately NIS 19,626 thousand (about EUR 3,474 thousand) as compared to approximately NIS 13,477 thousand (about EUR 2,386 thousand) in the corresponding quarter of 2004 (an increase of approximately 46%). The continued increase in revenues in the last fourteen quarters results mainly, according to Company, from the following factors:

- Continued market recognition in the Company's new generation products. The majority of these products have been developed during the course of the last five years and new models have been released every year.
- Marketing efforts primarily in the United States, intended to enhance the market penetration and the products recognition.
- Increased involvement of the Company in integration activities in the framework of the systems department.

The revenues from the Company products' activities in the three months period ended March 31, 2005 amounted to approximately NIS 8,261 thousand (about EUR 1,462 thousand) and constituted approximately 42% of the total revenues of the Company in this quarter whereas the revenues from its systems' activities in the same period amounted to approximately NIS 11,202 thousand (about EUR 1,983 thousand) and constituted approximately 57% of the total revenues (about 1% of the Company's revenues was generated by other activities). In the contemporaneous quarter in the year 2004, the revenues from products' activities amounted to approximately NIS 6,778 thousand (about EUR 1,200 thousand) and constituted 50% of the total revenues of the Company in such quarter whilst the revenues from systems' activities in the same period amounted to approximately NIS 6,699 thousand (about EUR 1,186 thousand) and constituted approximately 50% of the total revenues. In the annual report for the year 2004, the revenues from the Company's products' activities constituted approximately 48.4% of the revenues whereas the revenues from the Company's systems' activities constituted approximately 50.6% of the revenues.

The fluctuations between the quarters results mainly from the pace of the actual progress of work of logistic systems projects preformed by the Company's systems division (in the ordinary course of Company's business).

Gross Profit

The gross profit for the three months period ended March 31, 2005 amounted to approximately NIS 6,038 thousand (about EUR 1,069 thousand) (approximately 31% of the revenues for the period) as compared to approximately NIS 4,895 thousand (about EUR 867 thousand) in the contemporaneous period in the year 2004 (approximately 36% of the revenues in the period).

The Company believes that different profit margins of certain transactions, variations in the percentage of revenues generated from the different activities (in the ordinary course of Company's business), and the depreciation of the major selling currencies (Euro and US Dollar) against the NIS in the reported period, are the main factors affecting these gross profit figures.

Research and Development Expenses (Net)

The net research and development expenses (R&D) in the three months period ended March 31, 2005 amounted to approximately NIS 1,287 thousand (about EUR 228 thousand) (approximately 6.6% of the revenues) as compared to approximately NIS 926 thousand (about EUR 164 thousand) in the corresponding quarter of 2004 (approximately 6.9% of the revenues).

The R&D expenses in the reported period reflect a continued development activity of new technologies and new products, required to support the Company's continued growth. During and after the reported period, the Company continued recruiting additional personnel for the development teams, and therefore expects an increase in such expenses in the coming quarters[1].

Sale and Marketing Expenses

The sales and marketing expenses in the three months period ended March 31, 2005 amounted to approximately NIS 1,887 thousand (about EUR 334 thousand) (about 9.6% of revenues), in comparison to approximately NIS 1,896 thousand (about EUR 336 thousand) (about 14% of revenues) in the corresponding quarter of 2004.

No increase was registered in sales and marketing expenses in the reported period compared to the corresponding quarter of 2004, however in previous quarters adaptations required to support the continued growth were registered, conforming with the increased revenues, in accordance with the Company's policy, and resulting mainly from recruitment of additional personnel to the marketing teams, attendance and participation in trade shows, and additional marketing activities in Israel and worldwide. The Company expects continued growth in this item in the coming quarters[2].

General and Administrative Expenses

The general and administrative expenses for the three months period ended March 31, 2005 amounted to approximately NIS 1,628 thousand (about EUR 288 thousand) as compared to approximately NIS 934 thousand (about EUR 165 thousand) in the corresponding quarter of 2004.

The general and administrative expenses in the reported period reflect adaptations required for supporting the continued growth, and includes expenses related mainly to professional consulting and other services as well as a non-recurring expense due to unrecoverable debts of approximately NIS 150 thousand (about EUR 27 thousand).

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[1] The information with regard to the expected growth in the R&D Expenses item is forward-looking information. The main data constituting the basis for this information are the Company's development plans, the actual stages of development on the date of the report of the technology being developed at the Company and the need for continued material investments in R&D expenses, to implement the Company's 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 requirements 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 with the completion of the development stages pursuant to these plans.

[2] The information with regard to the expected growth in the Selling and Marketing Expenses item is forward-looking information. The main data constituting 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 including expenses related to registration of intellectual property rights such as trademarks and internet domain names. The main factors likely to prevent this information from being implemented 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).

Operating Profit

The operating profit for the three months period ended March 31, 2005 amounted to approximately NIS 1,236 thousand (about EUR 219 thousand) as compared to an operating profit of approximately NIS 1,139 thousand (about EUR 202 thousand) for the corresponding quarter of 2004 (an increase of about 8.5%).

The relative stability in operating profit results mainly from adaptations made in the reported period in sales and marketing expenses and in general and administrative expenses, required for supporting the continued growth as explained above.

Financing Expenses (Net)

The financing expenses for the three months period ended March 31, 2005 amounted to approximately NIS 408 thousand (about EUR 72 thousand) as compared to approximately NIS 617 thousand (about EUR 109 thousand) for the corresponding quarter of 2004.

As of May 2004, the Company's exposure to exchange rate fluctuations of the NIS against the US Dollar increased as a result of the issuance of Dollar linked convertible bonds (series 1) issued by the Company as part of its public offering pursuant to the Israeli prospectus. In addition, such public offering also introduced an 'interest' factor and accordingly an exposure of the Company related to interest rates exists as explained below. Notwithstanding the above, a decrease in financing expenses was registered in the reported period, mainly as a result of financial income from investment activities effected within the framework of the Company's risk management policy detailed below.

Net Profit

In the three months period ended March 31, 2005, the Company reports a net profit which amounts to approximately NIS 814 thousand (about EUR 144 thousand) (approximately 4.1% of the revenues), in comparison to a net profit of approximately NIS 515 thousand (about EUR 91 thousand) (an increase of approximately 58%) in the corresponding period of 2004.

According to the Company, the continued increase in revenues along with increased operational expenses required to support its continued growth – are the main factors for the moderate growth in net profit in the reported period. As indicated above, the Company expects a possible increase in certain expenses items in the coming quarters, required for supporting its continued growth.

Analysis of Business Results by Sectors of Operations

As stated above, the Company's main commercial activities are performed through two business departments, the Products Department and the Systems Department. For details of the Income of each - see below.

The Products Sector

The Products sector results for the three months period ended March 31, 2005, amounted to approx. NIS 2,575 thousand (about EUR 456 thousand), as compared to approx. NIS 1,712 thousand (about EUR 303 thousand) for the corresponding quarter of 2004. The increase in the results in the reported period is mainly attributable, in the Company's opinion, to the growth in revenues from the Products sector as explained above.

The Systems Sector

The Systems sector results for the three months period ended March 31, 2005, amounted to approx. NIS 1,386 thousand (about EUR 245 thousand), as compared to approx. NIS 1,551 thousand (about EUR 303 thousand) for the corresponding quarter of 2004.

The decrease in the results for the reported period despite the growth in revenues from the Systems sector in such period, was mainly attributable to the Company's adaptations to a possible growth in this sector, mainly through the recruitment and education of new employees intended to support future projects. The Company believes that the number of projects implemented in Israel is expected to increase in this field, including the number of projects to be implemented by the Company[3]. However, at the same time the Company estimates that in consequence of extensive competition in this field, profitability may be reduced in the future[4].

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[3] The information concerning the possibility of 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 primary data which served as the basis for this information are the assumption that economic growth and relative improvement in the economic situation in Israel, concurrently with the increasing complexity of the business activities with which the automated logistic systems are aimed to cope, will impact on the demand in this field. The primary factors likely to result in such information not materializing are lack of improvement in the economic situation in Israel and/or in the world (or insignificant improvement) and/or the refraining of businesses from investments at large and investments in automated logistic systems in particular notwithstanding relative improvement in the economic situation, *inter alia*, in view of cutting expenses and/or on grounds of changes in policy of maintenance and/or management of inventories and/or on grounds of delay or absence of recognition on the part of the market of the advantage of automated logistic systems. Further, inasmuch as this information pertains specifically to the Company, other factors can result in such information not materializing, such as the Company's failure to compete with its competitors, and the other risk factors enumerated in section 1.39 of the Company's annual report for the year 2004.

[4] The information concerning the possibility of a decline in profitability in the systems sector is forward-looking information. The primary facts and data which served as the basis for this information are those presented in section 1.9.2.4 of the Company's annual report for year 2004, concerning competition in this sector and the competitors active therein. The primary factors likely to result in such information not materializing are: involvement on the part of the key competitors in this market that differs from that anticipated and/or changes in the mix between components of software, hardware and mechanics in logistic systems which impact on profitability, as well as development of sub-markets in the logistic systems sector, while at the same time various producers augment professionalism and focus in their own unique niche markets.

3. Liquidity and Financial Sources

The cash and cash equivalence and marketable securities of the Company as of March 31, 2005 amounted to approximately NIS 49,575 thousand (about EUR 8,776 thousand), as compared to approximately NIS 49,083 thousand (about EUR 8,689 thousand) as of December 31, 2004. This moderate increase is mainly attributable to the positive cash flow since the beginning of the year 2005 as explained below.

The cash flow from operating activities for the three months period ended March 31, 2005, amounted to a positive flow of approximately NIS 1,107 thousand (about EUR 196 thousand), mainly attributable to the net profit of the Company since the beginning of the year 2005 as explained below.

The cash flow from investment activities for the three months period ended March 31, 2005, amounted to a negative cash flow of approximately NIS 1,375 thousand (about EUR 244 thousand), mainly as a result of investments in marketable securities, property and equipment in the reported period

The cash flow from financing activities for the three months period ended March 31, 2005, amounted to approximately NIS 415 thousand (about EUR 73 thousand). The negative flow resulted mainly from the repayment of long term loans during the reported period.

As of March 31, 2005, the aggregate credit framework available to the Company amounted to approximately NIS 5 million (about EUR 0.9 million), of which approximately NIS 1.2 million (about EUR 0.2 million) has been exploited mainly for guarantees to secure the Company's obligations in certain projects performed by its systems' division.

4. Exposure to Market Risks and Risk Management Handling

The persons in charge for the handling of the market risks are the chief executive officer of the Company and its chief financial officer.

Exposure to Exchange Rate Fluctuations

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

In May 2004, the Company issued convertible bonds (series 1) according to the Israeli prospectus. The principal amount and interest of the convertible bonds are linked to the exchange rate of the US dollar. Until their conversion or their payment in full until May of 2010, the Company is exposed to exchange rate fluctuations of the US Dollar against the NIS.

In February 2001, the Company issued convertible bonds which were denominated in Euro. In December 2003, 75% in principal amount of the convertible bonds were converted into Company shares. Until their conversion or their payment in full, commencing from May 2006 until September of 2008, the Company is exposed to exchange rate fluctuations of the Euro against the NIS.

The assets of the Company which are exposed to exchange rate fluctuations mainly include deposits in various currencies (mainly in Euro and United States Dollar), and liabilities of customers which are denominated in various currencies depending on the customer, and do not bear interest.

The current liabilities which are exposed to exchange rate fluctuations include credit from banks which are linked in part to foreign currency, and liabilities to suppliers in foreign currency, mainly in Euro. The Company has long term liabilities related to the financing plan for supporting the acquisition of rights in the Company's facility at Airport City, approximately 40% of which is denominated in United States Dollar.

The majority of the Company's activity is performed in foreign currency or in NIS linked to foreign currencies. In the Company's products division, the bulk of revenues is denominated in United States Dollars or is linked to the rate of the United States Dollar, with the exception of revenues generated from sales in Europe, the majority of which is denominated in Euro. The majority of the Company's revenues from its systems division are derived mainly from sales denominated in Euro or which are linked to the rate of the Euro.

Raw materials required for production of the Company's products include mainly various electronic and mechanical components, and in most cases their prices are denominated in foreign currency – especially in Dollar and Euro.

Risks Related to Marketable Securities

Certain of the Company's financial assets are invested in marketable securities. Irregular developments in capital markets in Israel and in the world are likely to cause fluctuations in the rates of securities traded on Stock Exchanges and consequently affect the financial income or expenses of the Company.

Interest Related Risks

The Company received a number of loans within the framework of a financing plan for the acquisition of rights in the Company's facility at Airport City, convertible debentures issued by the Company within the framework of the Israeli prospectus and also manages certain other credit frameworks, which bear various rates of interest and which are exposed to possible changes in the “Prime” and/or "Libor" rates of interest.

Company's Policy of Handling Market Risks

The Company acts to reduce its exposure to market risks by implementing appropriate assessment procedures which are designed to facilitate detection of extreme variations of costs and erroneous assessments. These procedures are conducted by the Company's management regularly on a weekly basis. Furthermore the Company performs daily reporting and control of its cash and credit balances.

The Company continuously examines the credit granted to customers and potential losses that may result from granting such credit to customers. The Company makes specific provisions in respect of debts where doubt exists as to their recovery.

In the Company's systems' activities, the Company's policy is to minimize - for each contract - the exposure to exchange rate fluctuations by adjusting the currency of the revenues to the currency of the major expenses.

In parallel, and in order to further enhance its ability to address the above exposures, the Company invested through two separate financial entities in Israel, in portfolios linked to the US dollar and in acquisition of bonds linked to the US dollar with varying interest rates.

Monetary Assets and Liabilities Classified by Linkage Basis

	March 31,2005						
	Israeli currency		Other currencies				
	Not linked	Linked to the Israeli CPI	EURO	USD	Other currencies	Non monetary assets and liabilities	Total
	NIS in thousands						
Assets							
Cash and cash equivalents	4,135	-	12,575	3,554	-	-	20,264
Marketable securities	3,819	13,091	-	12,401	-	-	29,311
Accounts receivable - Trade	1,965	-	1,177	1,579	-	-	4,721
Accounts receivable - Other	156	523	-	-	-	211	890
Inventory	-	-	-	-	-	8,676	8,676
Inventory - work in progress	-	-	-	-	-	1,598	1,598
Long-term deposits	-	-	-	-	-	156	156
Property and equipment	-	-	-	-	-	22,524	22,524
Other assets	-	-	-	-	-	3,953	3,953
Total assets	10,075	13,614	13,572	17,534	-	37,118	92,093
Liabilities							
Credit from banks and others	924	166	-	-	-	-	1,090
Accounts payable - Trade	6,074	-	4,880	96	14	-	11,064
Accounts payable - Other	5,521	-	-	196	-	2,485	8,202
Long-term debt	5,111	462	-	5,171	-	-	10,744
Convertible bonds	-	-	4,676	33,504	-	-	38,180
Accrued severance pay, net	1,199	-	-	-	-	-	1,199
Deferred taxes	-	-	-	-	-	185	185
Total liabilities	18,829	628	9,556	38,967	14	2,670	70,664
	(8,754)	12,986	4,196	(21,433)	(14)	34,448	21,429

Tzvi Livne
Director
CEO

Haim Shani
Chairman &

Date: May 3rd , 2005

UNITRONICS (1989) (R"G) LTD.

Financial Statements
As of March 31, 2005

(Unaudited)

Unitronics (1989) (R"G) Ltd.

Financial Statements

As of March 31, 2005

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AMIT, HALFON C.P.A (ISR)
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office@amithalfon-cpa.co.il

To the Board of Directors of Unitronics (1989) (R"G) Ltd.

Re: **Review of the Interim Financial Statements**

At your request, we have reviewed the interim consolidated balance sheet of Unitronics (1989) (R"G) Ltd. as of March 31, 2005, and the related interim consolidated statements of operations, changes in shareholders' equity and cash flows for the three months then ended.

Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included reading the above mentioned interim consolidated financial statements, reading minutes of meetings of the shareholders and of the board of directors and its committees, and making inquiries of persons responsible for financial and accounting matters.

We did not review the Interim Financial Statements of a subsidiary, which were reviewed by other auditors. We have been furnished with reports of other auditors in respect of the review of the Interim Financial Statements of the subsidiary whose assets as of March 31, 2005 represent approximately 2% of the total assets included in the Consolidated Interim Balance Sheet and whose income for the three month period ended March 31, 2005 represents approximately 9% of the total income included in the Consolidated Interim Statement of Operations.

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

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

Amit, Halfon
Certified Public Accountants (Israel)

Tel-Aviv, May 3, 2005

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

	March 31, 2005	*March 31, 2005*	*March 31, 2004*	*December 31, 2004*
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro (1)	**Reported NIS**		
Cash and cash equivalents	3,587	20,264	12,216	20,947
Marketable securities	5,189	29,311	1,184	28,136
Accounts receivable -				
Trade	836	4,721	5,119	6,862
Other	157	890	621	903
Inventory	1,536	8,676	6,049	9,785
Inventory - work in progress	283	1,598	569	443
Current assets	*11,588*	*65,460*	*25,758*	*67,076*
Long-term deposits	*28*	*156*	*110*	*133*
Property and equipment	*3,987*	*22,524*	*21,317*	*22,620*
Other assets	*700*	*3,953*	*951*	*4,157*
Total assets	***16,303***	***92,093***	***48,136***	***93,986***
Credit from banks and others	193	1,090	1,538	1,127
Accounts payable -				
Trade	1,958	11,064	6,080	13,730
Other	1,452	8,202	10,350	7,895
Current liabilities	*3,603*	*20,356*	*17,968*	*22,752*
Long-term debt	1,902	10,744	11,537	11,062
Convertible bonds	6,759	38,180	4,521	38,252
Accrued severance pay, net	212	1,199	1,134	1,140
Deferred taxes	33	185	138	165
Long-term liabilities	*8,906*	*50,308*	*17,330*	*50,619*
Shareholders' equity	*3,794*	*21,429*	*12,838*	*20,615*
Total liabilities and shareholders' equity	***16,303***	***92,093***	***48,136***	***93,986***

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

Approved: May 3, 2005.

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Operations	*For the three month period ended March 31,*	*For the three month period ended March 31*		*For the year ende December 31,*
	2005	***2005***	***2004***	***2004***
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro (1)	**Reported NIS**		
Revenues	3,474	19,626	13,477	61,771
Cost of revenues	2,405	13,588	8,582	40,069
Gross profit	*1,069*	*6,038*	*4,895*	*21,702*
Research & development expenses, net	228	1,287	926	4,169
Selling & marketing expenses	334	1,887	1,896	7,746
General & administrative expenses	288	1,628	934	4,691
Operating profit	*219*	*1,236*	*1,139*	*5,096*
Financing expenses, net	72	408	617	2,193
Operating profit after financing expenses, net	*147*	*828*	*522*	*2,903*
Other revenues, net	-	-	-	48
Profit before taxes on income	*147*	*828*	*522*	*2,951*
Taxes on income	3	14	7	72
Profit for the period	*144*	*814*	*515*	*2,879*
Profit per NIS 1 ordinary share				
Basic	0.62	3.49	2.36	12.69
Fully diluted	0.62	3.49	1.63	12.69
Supplementary information				
Profit per ordinary share				
Basic	*0.01*	*0.07*	*0.05*	*0.25*
Fully diluted	*0.01*	*0.07*	*0.03*	*0.25*

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

Unitronics (1989) (R"G) Ltd. Statements of Shareholders' Equity	Share capital	Share premium	Receipts on account of warrants	Accumulatec Loss	Total
	Reported NIS in thousands				
Balance at January 1, 2004 (audited)	336	43,721	-	(31,734)	12,323
Issue of share capital	16	4,721	-	-	4,737
Receipts on account of warrants	-	-	676	-	676
Profit for the year	-	-	-	2,879	2,879
Balance at December 31, 2004 (audited)	352	48,442	676	(28,855)	20,615
Profit for the period	-	-	-	814	814
Balance at March 31, 2005 (unaudited)	352	48,442	676	(28,041)	21,429
Balance at January 1, 2004 (audited)	336	43,721	-	(31,734)	12,323
Profit for the period	-	-	-	515	515
Balance at March 31, 2004 (unaudited)	336	43,721	-	(31,219)	12,838
	Convenience translation into Euro in thousands (unaudited) (1)				
Balance at January 1, 2005	62	8,576	120	(5,108)	3,650
Profit for the period	-	-	-	144	144
Balance at March 31, 2005	62	8,576	120	(4,964)	3,794

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Operations	*For the three month period ended March 31,*	*For the three month period ended March 31*		*For the year ende December 31,*
	2005	*2005*	*2004*	*2004*
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro (1)	**Reported NIS**		
Profit for the period	144	814	515	2,879
Depreciation and amortization	130	733	276	2,099
Loss (profit) from marketable securities, net	(47)	(266)	2	(396)
Capital gain	-	-	-	(48)
Increase in accrued severance pay, net	10	59	66	72
Deferred taxes, net	1	5	7	32
Erosion on long-term debt, convertible bonds and bank deposit, net	(24)	(135)	297	326
Decrease (increase) in accounts receivable - trade	379	2,141	(205)	(1,617)
Decrease (increase) in accounts receivable - other	2	13	(118)	(400)
Decrease (increase) in inventory	196	1,109	330	(3,406)
-Decrease (increase) in inventory work in progress	(204)	(1,155)	779	905
Increase (decrease) in accounts payable - trade	(446)	(2,518)	1,282	8,695
Increase in accounts payable - other	55	307	5,311	2,525
Cash flows provided by operating activities	*196*	*1,107*	*8,542*	*11,666*
Sale of (investment in) marketable securities, net	(162)	(909)	68	(26,695)
Purchase of property and equipment	(72)	(409)	(2,344)	(4,309)
Sale of equipment	-	-	-	246
Investment in long-term deposits	(4)	(25)	(7)	(37)
Repayment of long-term deposits	-	2	13	20
Investment in patent	(6)	(34)	-	(58)
Investment in other assets	-	-	(408)	-
Cash flows used in investing activities	*(244)*	*(1,375)*	(2,678)	(30,833)
Deferred offering expenses	-	-	-	(4,184)
Repayment of long-term loans	(71)	(402)	(146)	(594)
Loans received from other	-	-	-	283
Short-term credit from banks, net	(2)	(13)	468	13
Share capital issue	-	-	-	4,737
Receipts on account of warrants	-	-	-	676
Convertible bonds issue	-	-	-	33,153
Cash flows provided by (used in) financing activities	*(73)*	*(415)*	*322*	*34,084*
Increase (decrease) in cash and cash equivalents	*(121)*	*(683)*	6,186	14,917
Cash and cash equivalents at beginning of year	3,708	20,947	6,030	6,030
Cash and cash equivalents at end of year	*3,587*	*20,264*	*12,216*	*20,947*

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Operations	*For the three month period ended March 31,*	*For the three month period ended March 31*		*For the year ende December 31,*
	2005	*2005*	*2004*	*2004*
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro (1)	**Reported NIS**		
Appendix A - Non cash transactions				
Payables related to property and equipment	27	152	63	300

(1) See Note 2E.
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

These financial statements have been prepared in a condensed format as of March 31, 2005, and for the three months then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of December 31, 2004 and for the year then ended.

Note 2 - Significant Accounting Policies

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

The significant accounting policies and methods of computation followed in the preparation of the interim financial statements are identical to those followed in the preparation of the latest annual financial statements.

B. The company prepares its financial statements in reported amounts according to Accounting Standard No. 12 (as amended by Accounting Standard No. 17) with respect to the discontinuance of the adjustment of financial statements for the effects of inflation, starting at January 1, 2004.

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

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

As of	Israeli CPI	Exchange rate of one Euro	Exchange rate of one U.S. dollar
	Points (*)	NIS	NIS
March 31, 2005	179.66	5.6488	4.361
March 31, 2004	178.40	5.5353	4.528
December 31, 2004	180.74	5.8768	4.308
Change during the period	**%**	**%**	**%**
March 2005 (three months)	(0.60)	(3.88)	1.23
March 2004 (three months)	(0.10)	0.04	3.40
December 2004 (12 months)	1.21	6.21	(1.62)

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

E. Convenience translation in EURO

For the convenience of the reader, the reported NIS amounts for the last reported period have been translated in EURO by dividing each reported NIS amount by the representative rate of exchange of the EURO as at March 31, 2005 (EURO 1 = NIS 5.6488).

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

F. Profit per ordinary share

The company, in accordance with Israeli GAAP, presents the profit per NIS 1.00 ordinary shares, i.e. the profit for the period is divided by the nominal value of the company's share capital. For the convenience of the reader the company present as supplementary information profit per ordinary share, i.e. by dividing the profit for the period by the number of company's ordinary shares.

Note 3 - Business segments

A. Revenues

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Operations	*For the three month period ended March 31,*	*For the three month period ended March 31*		*For the year ende December 31,*
	2005	*2005*	*2004*	*2004*
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro (1)	**Reported NIS**		
Products	1,462	8,261	6,778	29,883
System integration projects	1,983	11,202	6,699	31,263
Other	29	163	-	625
	3,474	*19,626*	*13,477*	*61,771*

B. Segment *results*

Products	456	2,575	1,712(*)	9,241
System integration projects	245	1,386	1,551(*)	4,934
Other	5	25	-	114
Unallocated corporate expenses	(487)	(2,750)	(2,124)	(9,193)
Operating profit	219	1,236	1,139	5,096

(*) Re-classified.

Note 4 - Events after the balanced date

In March 2005 the Company's audit committee and board of directors resolved, to grant Mr. Haim Shani - the Company's Chief Executive Officer and chairman of the board of directors (hereinafter: "Mr. Shani"), a bonus (the "Special Bonus"), as consideration for his contribution to the Company's successful performance over the previous years in general and during the year 2004 in particular. The Special Bonus will be in an amount of NIS 400,000 (approx. Euro 69,000).

In addition, the Company will pay to 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.

The above resolutions are subject to the approval of a general meeting of the Company's shareholders.

After the balance sheet date the general meeting of the company's shareholders approved the above resolutions. Provision for those bonuses for the periods till March 31, 2005 will be included in the second quarter of the year.