Unitronics (1989)(R"G) LTD.

Quarterly Report as of March 31, 2006

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, 2006 (1 EUR = 5.6619 NIS).

Table of Contents

This Report contains forward-looking information within the meaning of Section 32A of the Israeli Securities Law, 5728-1968, including forecasts, estimations, assessments, expectations or other information pertaining to future events or issues, the occurrence of which is uncertain and not solely under the Company's control, if at all. This information is identified as such where it is used herein. Although such information is based on data available to the Company as of the date of the Report, and reflects the Company's intents and estimates as of such date, the actual occurrences and/or results may vary substantially from those presented in the Report or implied therefrom as projected or anticipated since their occurrence is subject, *inter alia*, to uncertainties and other factors beyond the Company's control as 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
Telephone:	03-9778888
Facsimile:	03-9778877

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 machines performing automatic tasks such as 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 and logistic centers.

The Company's PLCs are distributed through over one hundred and forty distributors (and a wholly-owned US 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

The following events took place during the reported period and were previously reported within the periodic report for the year 2005 on March 27, 2006 (hereafter the "**Annual Report**") and no changes occurred on these matters since then:

- Market making agreement with "Harel", see item 1.4.9 in the Annual Report.
- Purchase of the Company shares by the Company, see items 4.7 and 4.9 in the Annual Report.
- Annual bonus to the CEO and allocation of his salary between the Company and it subsidiary, see item 4.7.2 in the Annual Report.

Exemption and indemnification of office holders

Subsequently to the Company's audit committee and board of director's resolutions from March 27, 2006, an annual general meeting of the Company's shareholders (the “**AGM**”) was convened and held on May 9, 2006, and adopted among other resolutions, the following resolutions (for details see an immediate report concerning the results of the AGM, published May 9, 2006):

1. Amendment of the "INDEMNITY AND INSURANCE OF OFFICE HOLDERS" chapter in the Company's Articles of Association (Section 109 of the Articles), (for details see an immediate report concerning the amendments of the Company's Articles of Association, published May 9, 2006)

2. Approval of the indemnification and exemption of the Company's Office Holders as may be appointed from time to time, and/or those serving in Other Companies (excluding Office Holders which are Controlling Shareholders of the Company) pursuant to the provisions of the Indemnity Letter, which was attached as Appendix B to the Immediate Report (the "**Indemnity Letter**"), and the granting of Indemnity Letters to such Office Holders.

3. Approval of the indemnification and exemption of Mr. Haim Shani and Mrs. Bareket Shani, the Controlling Shareholder in the Company and his wife, pursuant to the provisions of the Indemnity Letter, and the granting of Indemnity Letters to Messrs. Shani (for details see an immediate report concerning the results of the AGM published May 9, 2006).

Further to such resolutions, on May 18, 2006, the Company granted Indemnity Letters to the Company's Office Holders, including Mr. Haim Shani and Mrs. Bareket Shani, the Controlling Shareholder in the Company and his wife (for details see an immediate report published May 9, 2006).

Director's appointment

The AGM ratified the re-appointment Mr. Tzvi Livne as a Director of the Company (Category B) for an additional term of three years, in accordance with the Company's Articles of Association (for details see an immediate report concerning appointment of a Director (who is not a corporation) or an individual serving on behalf of a corporation, which is a Director, published May 9, 2006).

Granting of Options

The AGM ratified the Company's shareholders general meeting's resolution dated December 15, 2005, to grant options to purchase 10,000 Ordinary Shares of the Company, to Mr. Ron Mishael, who serves as an External Director of the Company. On May 18, 2006, such options were granted to Mr. Mishael (for details see an immediate report published May 9, 2006).

Legal Procedures

Dispute with IMO

As detailed in item 1.32.1 of the Annual Report, Unitronics encountered a conflict with IMO Jeambrun Automation SAS (hereafter "**IMO**") from France, that acquired in August 2004 the business activities of Unitronics' exclusive distributor in France, following its insolvency declaration. As part of the procedures conducted between the parties in France, IMO filed a monetary lawsuit against Unitronics with a claim in excess of one million Euro, due to the termination of the association and breach of the agreement by Unitronics and unfair competition. In May 11^{th} 2006, a ruling was given, rejecting IMO's claims and granting Unitronics attorney's fees and expenses. Such ruling remains subject to possible appeal in instances of appeal. Due to the complexity of this matter, the merits of this procedure can not be currently estimated.

In addition to the above mentioned procedures, Unitronics filed a lawsuit in the Israeli court for one million Euro, against IMO Precision Controls Ltd., the parent company of IMO, as well as against its owner Sir Maurice Hatter and its manager Mr. Furlotti (see item 1.32.1 in the Annual Report. The lawsuit has not yet been served upon certain of the defendants (the above mentioned parent company and its shareholder) and therefore no statement of defense has been submitted by them. The lawsuit has been served upon the abovementioned manger in Israel. On May 10^{th} 2006 the court ruled the entire lawsuit and expenses in favor of Unitronics (against this manager). Such ruling remains subject to possible appeal in instances of appeal. The merits of such procedure can not be estimated.

Dispute with Samy Gharb

As detailed in item 1.32.1 of the Annual Report, in January 2006 the Company through counsel in the United States filed a claim in the US court against a private individual who approached several Company distributors in the United States and in Europe claiming that by marketing the Company's products they are infringing upon a registered patent of his. The defendant did not submit a statement of defense during the required period, but sent a response letter to the court, that deemed such letter a response and a statement of defense and in spite of Unitronics' request to rule in its favor (for lack of a statement of defense), the court decided to continue with the review of the matter. A telephonic hearing is scheduled for June 2^{nd} 2006. At this stage it is not possible to evaluate the prospects of the procedure.

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, 2006 has increased to approximately NIS 102,340 thousand (about EUR 18,075 thousand) as compared to approximately NIS 97,739 thousand (about EUR 17,263 thousand) as of December 31, 2005. This increase is mainly attributable to the increase in inventory as specified below, after deducting deferred expenses due to the implementation of Accounting Standard No.22 (see note F.1 of the financial statement and the liabilities item below)

In the total of the cash, cash equivalents and marketable securities items, an increase was registered, amounting to approximately NIS 52,555 thousand (about EUR 9,283 thousand) as of March 31, 2006 compared to approximately NIS 51,205 thousand (about EUR 9,044 thousand) as of December 31, 2005. This change is mainly attributable to the net profit from the beginning of year 2006 and to from profit during such period from marketable securities, as specified below.

In the accounts receivable (trade) item, a minor increase was registered from approximately NIS 10,103 thousand (about EUR 1,784 thousand) as of December 31, 2005 to approximately NIS 10,760 thousand (about EUR 1,900 thousand) as of March 31, 2006, and it is mainly attributable to the growth in revenues from sales, as specified below.

An increase of about 46% was registered in the inventory, from an amount of approximately NIS 9,451 thousand (about EUR 1,669 thousand) as of December 31, 2005 to approximately NIS 13,814 thousand (about EUR 2,440 thousand) as of March 31, 2006. The increase is mainly attributable to the growth of the sales of the products sector, procurement with respect to commencing production and sales of the Jazz™ PLC series, arrangements made in respect to temporary shortage of certain electronic components occurring from time to time (known as "allocations" – for more information see item 1.24.1 in the Annual Report for year 2005), as well as to the initiated increase in the inventory levels of the Company's US subsidiary according to the Company's policy to support its distributors and customers and facilitate the availability of the Company's products (for more information on the Company's policy see item 1.24.1 in the Annual Report for year 2005

The Other Assets item as of March 31, 2006 amounted to approximately NIS 497 thousand (about EUR 88 thousand), as compared to NIS 3,279 thousand (about EUR 579 thousand) as of December 31, 2005. The change is mainly attributable to the reclassification of deferred issuance expenses in connection with the convertible debentures (issued to the public in accordance with the Israeli Prospectus) to the long term liabilities convertible bonds item, in accordance with Accounting Standard No.22 of the Israeli institute of accounting standards, applicable to financial statements for periods commencing January 1st 2006.

Liabilities

The aggregate short term credit amounted to approximately NIS 1,787 thousand (about EUR 316 thousand) as of March 31, 2006, as compared to NIS 1,103 thousand (about EUR 195 thousand) as of December 31, 2005, and is mainly attributable to current maturities of convertible debentures and long-term debts

Accounts payable (trade) amounted as of March 31, 2006 to NIS 19,064 thousand (about EUR 3,367 thousand) as compared to NIS 13,146 thousand (about EUR 2,322 thousand) as of December 31, 2005. The increase results mainly from the increase in the accounts payable in connection with the Company's increase in inventory explained above, and from the increase in sales (and in required purchases thereof) in the products sector as detailed below.

Accounts payable (other) amounted as of March 31, 2006 to NIS 11,744 thousand (about EUR 2,074 thousand) as compared to NIS 12,305 thousand (about EUR 2,173 thousand) as of December 31, 2005. The decrease is mainly attributable to the decrease in the down payments item in connection to the system's sector activity, resulting 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).

In the aggregate long-term liabilities as of March 31, 2006 a decrease was recorded and they amounted to NIS 48,311 thousand (about EUR 8,532 thousand) as compared to NIS 50,520 thousand (about EUR 8,923 thousand) as of December 31, 2005. This change results mainly from the revaluation of long term debts, influenced by the increase of currency exchange rates (mainly the Euro) during the reported period, deducting the reclassification of deferred issuance expenses in connection with the convertible debentures as explained above.

The working capital of the Company amounted to approximately NIS 46,592 thousand (about EUR 8,229 thousand) as of March 31, 2006 as compared to approximately NIS 45,234 thousand (about EUR 7,989 thousand) as of December 31, 2005. This increase results mainly from the above explained changes in cash, marketable securities, and inventory items.

The Company's shareholders equity as of March 31, 2006 increased to approximately NIS 21,434 thousand (about EUR 3,786 thousand), as compared to approximately NIS 20,665 thousand (about EUR 3,650 thousand) as of December 31, 2005. This increase arises mainly from the net profit of the Company in the reported period, deducting the purchase of the Company's shares by the Company as described below and from the allocation of thecapital component of the convertible debentures to shareholders' equity, resulting from the implementation of Standard 22 .

2. Operating Results

Note: as of January 1st 2006, the Company changed the way depreciation expenses are allocated between the departments, as therefore relevant comparative data for prior periods were restated.

Revenues

The Company's revenues in the three months period ended March 31, 2006 amounted to approximately NIS 20,740 thousand (about EUR 3,663 thousand) as compared to approximately NIS 19,626 thousand (about EUR 3,466 thousand) in the corresponding period of 2005 (an increase of approximately 6%), a continued increase in revenues in the last eighteen quarters.

The revenues from the Company products' activities in the three months period ended March 31, 2006 amounted to approximately NIS 12,822 thousand (about EUR 2,265 thousand) an increase of about 55% as compared to the corresponding period of 2005, and of about 25% as compared to the previous quarter. The increase in revenues from the Company products' activities 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 few 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.

The revenues from the Company systems' activities in the three months period ended March 31, 2006 amounted to approximately NIS 7,768 thousand (about EUR 1,372 thousand) a decrease of about 31% as compared to the corresponding period of 2005, and of about 23% as compared to the previous quarter. 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).

The revenues from the Company products' activities in the three months period ended March 31, 2006 constituted approximately 62% of the total revenues of the Company in this quarter whereas the revenues from its systems' activities in the same period constituted approximately 37% of the total revenues (another 1% is attributable to other revenues). In the contemporaneous quarter in the year 2005, the revenues from products' activities constituted about 42% of the total revenues of the Company in such quarter whilst the revenues from systems' activities in the same period constituted approximately 57% of the total revenues. In the annual aggregate for the year 2005, the revenues from the Company's products' activities constituted approximately 46% of the revenues whereas the revenues from the Company's systems' activities constituted approximately 53% of the revenues.

Gross Profit

The gross profit for the three months period ended March 31, 2006 amounted to approximately NIS 7,937 thousand (about EUR 1,402 thousand) (approximately 38% of the revenues for the period) as compared to approximately NIS 5,965 thousand (about EUR 1,054 thousand) in the contemporaneous period in the year 2005 (approximately 30% of the revenues in the period).

The gross margin in the products sector activities is higher than the gross margin of the systems sector activities. The Company believes that variations in the percentage of revenues generated from the different activities (in the ordinary course of Company's business), and the depreciation of the NIS against the main sales currencies (Dollar and Euro) in the reported period, are the main factors affecting these rates of gross profit.

Research and Development Expenses, Net

The net research and development expenses (R&D) in the three months period ended March 31, 2006 amounted to approximately NIS 1,949 thousand (about EUR 344 thousand) (approximately 9.4% of the revenues) as compared to approximately NIS 1,323 thousand (about EUR 234 thousand) in the corresponding period of 2005 (approximately 6.7% 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 and to support the adaptation of Company's products to certain regulatory changes in certain areas of the word (for information see paragraph 1.9.1.2 of the Annual Report for the year 2005). 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].

[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

Sale and Marketing Expenses

The sales and marketing expenses in the three months period ended March 31, 2006 amounted to approximately NIS 2,774 thousand (about EUR 490 thousand) (about 13.4% of revenues), in comparison to approximately NIS 1,921 thousand (about EUR 339 thousand) (about 9.8% of revenues) in the corresponding period of 2005.

An increase was registered in sales and marketing expenses in the reported period compared to the corresponding quarter of 2005, but no significant change was registered compared to the previous quarter. In previous quarters adaptations were registered, required to support the continued growth, 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 relative stability in such item in coming quarters, with relative adaptations to growth of revenues[2].

General and Administrative Expenses

The general and administrative expenses for the three months period ended March 31, 2006 amounted to approximately NIS 1,516 thousand (about EUR 268 thousand) as compared to approximately NIS 1,485 thousand (about EUR 262 thousand) in the corresponding quarter of 2005.

The general and administrative expenses in the reported period reflect according to the Company, the expenses required for managing the increasing activity of the Company.

Operating Profit

An increase of about 37% was registered in the operating profit for the three months period ended March 31, 2006, and it amounted to approximately NIS 1,698 thousand (about EUR 300 thousand) as compared to an operating profit of approximately NIS 1,236 thousand (about EUR 218 thousand) for the corresponding period of 2005. An increase of approximately 196% was registered in this item as compared to the previous quarter.

The increase in operating profit results mainly from the increase in gross profit, after deducting adaptations made in the reported period in the items of R&D, sales and marketing expenses, required for supporting the continued growth of the Company's activities as explained above.

Financing Expenses, Net

The financing expenses for the three months period ended March 31, 2006 amounted to approximately NIS 1,070 thousand (about EUR 189 thousand) as compared to approximately NIS 408 thousand (about EUR 72 thousand) for the corresponding period of 2005, and as compared to approximately NIS 1,789 thousand (about EUR 316 thousand) in the previous quarter. The financing expenses are mainly attributable to fluctuations of currency exchange rates as explained below, and from current depreciation of discount in connection with convertible debentures, afterdeducting financial income from investment activities effected within the framework of the Company's risk management policy detailed

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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 stability of the sales 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 visits in exhibitions and distributor trainings, and the need for continued material investments in marketing expenses, including registration of intellectual properties such as trademarks and internet domainnames. . 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 of the Company's distributors, main market changes and/or changes in markets where the Company is not operating, competitor's marketing activities).

below.

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). 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.

Net Profit

In the reported quarter, the Company reports a net profit which amounts to approximately NIS 601 thousand (about EUR 106 thousand) (about 2.9% of the revenues), in comparison to a net profit of approximately NIS 814 thousand (about EUR 144 thousand) in the corresponding period of 2005.

According to the Company, the continued increase in revenues along with increased operational expenses required to support its continued growth as previously described – are the main factors for the relative stability 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 Divisions, the Products Division and the Systems Division. For details of the Income of each - see below.

The Products Sector

The Products sector's results for the reported quarter, amounted to approx. NIS 4,307 thousand (about EUR 761 thousand), as compared to approx. NIS 2,575 thousand (about EUR 455 thousand) for the corresponding period of 2005. The increase in the results of this sector 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 reported quarter, amounted to approx. NIS 892 thousand (about EUR 157 thousand), as compared to approx. NIS 1,386 thousand (about EUR 245 thousand) for the corresponding period of 2005. The decrease in the sector's results for the reported period is mainly attributable in the Company's opinion to the decrease in revenues from this sector in the reported period. Such decrease results mainly, as previously explained, 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).

3. Liquidity and Financial Sources

The cash and cash equivalents and marketable securities of the Company as of March 31, 2006 amounted to approximately NIS 52,555 thousand (about EUR 9,283 thousand), as compared to approximately NIS 51,205 thousand (about EUR 9,044 thousand) as of December 31, 2005. This increase is mainly attributable to the positive cash flow in the reported period as described below.

The cash flow from operating activities for the three months period ended March 31, 2006, amounted to a positive flow of approximately NIS 1,213 thousand (about EUR 214 thousand), which is mainly attributable to the net profit of the Company from the beginning of 2006 as explained above.

The cash flow from investment activities for the three months period ended March 31, 2006, amounted to a negative cash flow of approximately NIS 792 thousand (about EUR 140 thousand), mainly as a result of investments in marketable securities and fixed assets in the reported period.

The cash flow from financing activities for the three months period ended March 31, 2006, amounted to a negative cash flow of approximately NIS 101 thousand (about EUR 17 thousand). The negative cash flow resulted mainly from the purchase of Company shares by the Company during the reported period.

As of March 31, 2006, the aggregate credit framework available to the Company amounted to approximately NIS 12.8 million (about EUR 2.26 million), of which approximately NIS 8.1 million (about EUR 1.43 thousand) has been exploited mainly for guarantees to secure the Company's obligations in certain projects performed by its systems' division.

4. <u>Qualitative report Re: Exposure to Market Risks and Risk Management Handling</u>

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

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

The Company is exposed to exchange rate fluctuations, mainly among the dollar, the NIS and the Euro (including among themselves), 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 by May 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 these 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 non interest bearing liabilities of customers denominated in various currencies depending on the customer, and foreign currency-linked tradable securities.

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 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 exchange 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 exchange 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 has a number of outstanding 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 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, 2006						
	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	1,140	-	12,218	4,804	-	-	18,162
Marketable securities	3,370	16,314	-	14,709	-	-	34,393
Accounts receivable - Trade	7,997	-	812	1,928	23	-	10,760
Accounts receivable - Other	1,229	597	-	-	-	232	2,058
Inventory	-	-	-	-	-	13,814	13,814
Inventory - work in progress	-	-	-	-	-	-	-
Long-term deposits	-	-	-	-	-	199	199
Property and equipment	-	-	-	-	-	22,457	22,457
Other assets	-	-	-	-	-	497	497
Total assets	13,736	16,911	13,030	21,441	23	37,199	102,340
	-						
Liabilities	-						
Credit from banks and others	2	146	1,512	127	-	-	1,787
Accounts payable - Trade	12,267	-	5,322	524	951	-	19,064
Accounts payable - Other	11,322	-	-	270	-	152	11,744
Long-term debt	-	332	5,615	5,472	-	-	11,419
Convertible bonds	-	-	3,296	31,732	-	-	35,028
Accrued severance pay, net	1,591	-	-	-	-	-	1,591
Deferred taxes	-	-	-	-	-	273	273
Total liabilities	25,182	478	15,745	38,125	951	425	80,906
Net Balance	(11,446)	16,433	(2,715)	(16,684)	(928)	36,774	21,434

Tzvi Livne
Director

Haim Shani
Chairman & CEO

Date: May 18th, 2006

UNITRONICS (1989) (R"G) LTD.

Financial Statements
As of March 31,2006

(Unaudited)

Table of contents

Page

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

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

At your request, we have reviewed the interim consolidated balance sheet of Unitronics (1989) (R"G) Ltd. as of March 31, 2006, 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, 2006 represent approximately 3% of the total assets included in the Consolidated Interim Balance Sheet and whose income for the three month period ended March 31, 2006 represents approximately 14% 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 ouditors, 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)

May 18, 2006

Unitronics (1989) (R"G) Ltd. **Consolidated Balance Sheets**	***March 31, 2006***	***March 31, 2006***	***March 31, 2005***	***December 31, 2005***
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro (1)	**Reported NIS**		
Cash and cash equivalents	3,208	18,162	20,264	17,842
Marketable securities	6,075	34,393	29,311	33,363
Accounts receivable -				
Trade	1,900	10,760	4,721	10,103
Other	362	2,058	890	1,029
Inventory	2,440	13,814	8,676	9,451
Inventory - work in progress	-	-	1,598	-
Current assets	*13,985*	*79,187*	*65,460*	*71,788*
Long-term deposits	*35*	*199*	*156*	*201*
Property and equipment	*3,967*	*22,457*	*22,524*	*22,471*
Other assets	*88*	497	3,953	*3,279*
Total assets	***18,075***	***102,340***	***92,093***	***97,739***
Credit from banks and others	316	1,787	1,090	1,103
Accounts payable -				
Trade	3,367	19,064	11,064	13,146
Other	2,074	11,744	8,202	12,305
Current liabilities	*5,757*	*32,595*	*20,356*	*26,554*
Long-term debt	2,017	11,419	10,744	11,411
Convertible bonds	6,186	35,028	38,180	37,512
Accrued severance pay, net	281	1,591	1,199	1,346
Deferred taxes	48	273	185	251
Long-term liabilities	*8,532*	*48,311*	*50,308*	*50,520*
Shareholders' equity	*3,786*	*21,434*	*21,429*	*20,665*
Total liabilities and shareholders' equity	***18,075***	***102,340***	***92,093***	***97,739***

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

Approved: May 18, 2006.

(1) See Note 2D.

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Operations	*For the three month period ended March 31,*	*For the three month period ended March 31,*		*For the year ended December 31,*
	2006	***2006***	***2005***	***2005***
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro (1)	**Reported NIS**		
Revenues	3,663	20,740	19,626	80,774
Cost of revenues	2,261	12,803	13,661 (*)	55,888 (*)
Gross profit	*1,402*	*7,937*	*5,965*	*24,886*
Research & development expenses, net	344	1,949	1,323 (*)	5,753 (*)
Selling & marketing expenses	490	2,774	1,921 (*)	9,659 (*)
General & administrative expenses	268	1,516	1,485 (*)	6,302 (*)
Operating profit	*300*	*1,698*	*1,236*	*3,172*
Financing expenses, net	189	1,070	408	2,511
Profit before taxes on income	*111*	*628*	*828*	*611*
Taxes on income	5	27	14	37
Profit for the period	*106*	*601*	*814*	*624*
Basic profit per ordinary share NIS 0.02 par value	0.009	0.052	0.070 (**)	0.054 (**)

(*) Reclassified.

(**) Restated, see Note 2F(5).

(1) See Note 2D.

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

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

	Share capital	Share premium	Receipts on account of warrants and convertion option	Company shares held by the company	Accumulated Loss	Total
	Reported NIS in thousands					
Balance at January 1, 2005 (audited)	352	48,442	676	-	(28,855)	20,615
Purchase of company shares by the company	-	-	-	(574)	-	(574)
Profit for the year	-	-	-	-	624	624
Balance at December 31, 2005 (audited)	352	48,442	676	(574)	(28,231)	20,665
Purchase of company shares by the company	-	-	-	(67)	-	(67)
Separation of conversion option from convertible bonds (*)	-	-	235	-	-	235
Profit for the period	-	-	-	-	601	601
Balance at March 31, 2006 (unaudited)	352	48,442	911	(641)	(27,630)	21,434
Balance at January 1, 2005 (audited)	352	48,442	676	-	(28,855)	20,615
Profit for the period	-	-	-	-	814	814
Balance at March 31, 2005 (unaudited)	352	48,442	674	-	(28,041)	21,429
	Convenience translation into Euro in thousands (unaudited) (1)					
Balance at January 1, 2006	62	8,556	119	(101)	(4,986)	3,650
Purchase of company shares by the company	-	-	-	(12)	-	(12)
Separation of conversion option from convertible bonds	-	-	42	-	-	42
Profit for the period	-	-	-	-	106	106
Balance at March 31, 2006	62	8,556	161	(113)	(4,880)	3,786

(*) See Note 2E(1).

(1) See Note 2D.

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Operations	*For the three month period ended March 31,*	*For the three month period ended March 31,*		*For the year ended December 31,*
	2006	*2006*	*2005*	*2005*
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro (1)	**Reported NIS**		
Profit for the period	106	601	814	624
Depreciation and amortization	136	772	733	3,004
Profit from marketable securities, net	(117)	(666)	(266)	(2,425)
Increase in accrued severance pay, net	43	245	59	206
Deferred taxes, net	4	21	5	35
Exchange rate changes of long-term Debt and convertible bonds	165	932	(135)	97
Decrease (increase) in accounts receivable - trade	(116)	(657)	2,141	(3,241)
Decrease (increase) in accounts receivable - other	(182)	(1,029)	13	(126)
Decrease (increase) in inventory	(771)	(4,363)	1,109	334
Decrease (increase) in inventory - work in progress	-	-	(1,155)	443
Increase (decrease) in accounts payable - trade	1,045	5,918	(2,518)	(284)
Increase (decrease) in accounts payable - other	(99)	(561)	307	4,410
Cash flows provided by operating activities	*214*	*1,213*	*1,107*	*3,077*
Investment in marketable securities, net	(64)	(364)	(909)	(2,802)
Purchase of property and equipment	(69)	(392)	(409)	(1,637)
Investment in long-term deposits	-(*)	-	(25)	(94)
Repayment of long-term deposits	-	2	2	26
Investment in patent	(7)	(38)	(34)	(110)
Cash flows used in investing activities	*(140)*	*(792)*	*(1,375)*	*(4,617)*
Loans received from banks	-	-	-	11,063
Repayment of long-term loans from banks	-	-	(367)	(11,506)
Repayment of long-term loans from others	(6)	(35)	(35)	(536)
Short-term credit from banks, net	-(*)	1	(13)	(12)
Purchase of company shares by the company	(11)	(67)	-	(574)
Cash flows used in financing activities	*(17)*	*(101)*	*(415)*	*(1,565)*
Increase (decrease) in cash and cash equivalents	*57*	*320*	*(683)*	(3,105)
Cash and cash equivalents at beginning of year	3,151	17,842	20,947	20,947
Cash and cash equivalents at end of year	*3,208*	*18,162*	*20,264*	*17,842*

(*) Less than Euro 1,000.

(1) See Note 2D.

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Operations	*For the three month period ended March 31,*	*For the three month period ended March 31,*		*For the year ended December 31,*
	2006	*2006*	*2005*	*2005*
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro (1)	**Reported NIS**		
Appendix A - Non cash transactions				
Payables related to property and equipment	-	-	152	-

(1) See Note 2D.

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, 2006, 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, 2005 and for the year then ended.

Note 2 - Significant Accounting Policies

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

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

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

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

As of	**Israeli CPI**	**Exchange rate of one Euro**	**Exchange rate of one U.S. dollar**
	Points (*)	**NIS**	**NIS**
March 31, 2006	186.12	5.6619	4.665
March 31, 2005	179.66	5.6488	4.361
December 31, 2005	185.05	5.4465	4.603
Change during the period	**%**	**%**	**%**
March 2006 (three months)	0.58	3.95	1.35
March 2005 (three months)	(0.60)	(3.88)	1.23
December 2005 (12 months)	2.38	(7.32)	6.85

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

D. Convenience translation in EURO

For the convenience of the reader, the reported NIS amounts for the last reported period have been translated in EURO by dividing each reported NIS amount by the representative rate of exchange of the EURO as at March 31, 2006 (EURO 1 = NIS 5.6619).

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

Note 2 - Significant Accounting Policies (cont'd)

F. Initial application of new Accounting Standards

1. Since January 1, 2006 the company implements Accounting Standard No.22 - "Financial Instruments: Disclosure and Presentation" ("the standard"). The Standard prescribes principles for the presentation of financial instruments and identifies the information that should be disclosed about them in the financial statements and cancels Opinions No. 48 and No. 53 of the Institute of Certified Public Accountants in Israel.
   The application of the standard was 'from now on'. Comparative data for prior periods were not restated.

   As a result of the initial application of the standard, the equity has been increased against a decrease in liabilities due to charge of the equity component of the financial instruments to the equity at the amount of NIS 235 thousands. In addition, issue expenses related to the convertible bonds have been deducted from the liabilities and were taken in account in the effective interest calculation. This issue expenses of NIS 2,796 thousand as at December 31, 2005 were deducted on January 1, 2006, from the liabilities presented in the balance sheet at December 31, 2005.

2. Since January 1, 2006 the company implements Accounting Standard No. 24, "Share-Based Payment" ("the Standard"). The Standard prescribes principles of measurement and specifically requires for three types of share-based payment transactions:
   a. Share-based payment transactions which will be settled in equity instruments.
   b. Share-based payment transactions which will be settled in cash.
   c. Share-based payment transactions which the entity or the other party can determine the way it will be settled.

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

3. Since January 1, 2006 the company implements Accounting Standard No. 25, "Revenues" ("the Standard"). The Standard deals with the recognition of revenue from three types of transactions: sale of goods, rendering of services and revenue from interest, royalties and dividends and prescribes the criteria for recognition, measurement, presentation and disclosure for each type of revenue.

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

4. Since January 1, 2006 the company implements Accounting Standard No. 20 (Revised), "Accounting for Goodwill and Intangible Assets upon Acquisition of Investee" ("the Standard"). The standard deals with goodwill and intangible assets upon acquisition of subsidiary, affiliated company or a company under common control.

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

5. Since January 1, 2006 the company implements Accounting Standard No. 21, "Earnings per Share" ("the Standard"), which prescribes the principles for the computation and presentation of earnings (loss) per share in the financial statements and supersedes Opinion No. 55 of the Institute of Certified Public Accountants in Israel.

   According to the Standard, earnings per share are to be computed based on the number of ordinary shares (and not per NIS 1 par value of the shares as computed until the effective date). Basic earnings per share are to include only shares which are outstanding during the period whereas convertible securities (such as convertible debentures and options) are to be included in the computation of diluted earnings per share, in contrast to the principles applied until the effective date according to which in cases where a convertible security is likely to be converted, it is included in the computation of basic earnings per share.

Note 2 - Significant Accounting Policies (cont'd)

F. Initial application of new Accounts Standards(cont'd)

5. (cont'd)

In addition, convertible securities which had been converted during the period, are to be included in diluted earnings per share up to the date of conversion and are to be included in basic earnings per share from that date. Pursuant to the Standard, options will be included in diluted earnings where their exercise results in the issuance of shares for a consideration which is less than the market price of the shares. The amount of dilution is the market price of the shares less the amount that would have been received as a result of the conversion of the options into shares. This is in contrast to the method of computation prescribed by Opinion No. 55, which also includes adjustments to earnings.

In the event that the Company has various types of ordinary shares with different rights, earnings per share are to be presented separately for each type of share, in accordance with the method of calculation prescribed by the Standard. The company's share of earnings of an investee is to be included based on the company's share in the earnings per share of the investee multiplied by the number of shares held by the company.

As a result of the initial application of this Standard the comparative data for earnings per share were retrospectively restated. The comparative data, before the restatement, were NIS 3.49 and NIS 2.68 for the three month period ended March 31, 2005 and for the year ended December 31, 2005, respectively.

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 ended December 31,***
	2006	***2006***	***2005***	***2005***
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro (1)	**Reported NIS**		
Products	2,265	12,822	8,261	37,201
System integration projects	1,372	7,768	11,202	42,862
Other	26	150	163	711
	3,663	*20,740*	*19,626*	*80,774*

B. Segment *results*

Products	761	4,307	2,575	10,498
System integration projects	157	892	1,386	4,591
Other	3	16	25	73
Unallocated corporate expenses	(621)	(3,517)	(2,750)	(11,990)
Operating profit	*300*	*1,698*	*1,236*	*3,172*

Note 4 - Subsequent Events

After the balance date the annual general meeting of the Company's shareholders (the "**AGM**"), which convened and held on May 9, 2006, has approved the indemnification and exemption of the Company's Office Holders as may be appointed from time to time, and/or those serving in Other Companies (excluding Office Holders which are Controlling Shareholders of the Company) pursuant to the provisions of the Indemnity Letter and the granting of Indemnity Letters to such Office Holders.
In addition, the AGM has approved the indemnification and exemption of Mr. Haim Shani and Mrs. Bareket Shani, the Controlling Shareholder in the Company and his wife, pursuant to the provisions of the Indemnity Letter and the granting of Indemnity Letters to Messrs. Shani.
On May 18, 2006, the Company has granted Indemnity Letters to the Company's Office Holders, including Mr. Haim Shani and Mrs. Bareket Shani, the Controlling Shareholder in the Company and his wife.
Further more, the AGM has ratified the Company's shareholders general meeting's resolution dated December 15, 2005, to grant options to purchase 10,000 Ordinary Shares of the Company, to Mr. Ron Mishael, who serves as an External Director of the Company. On May 18, 2006, such options were granted to Mr. Mishael.