Unitronics (1989) (R"G) Ltd

Quarterly Report as of March 31, 2010

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

CHAPTER A – PREFACE

1. General

Company Name: UNITRONICS (1989) (R"G) LTD. (hereinafter: the "Company" or "Unitronics")

Company No.: 520044199

Address: Unitronics House, Arava Street, Airport City, P.O.B. 300, Israel 70100

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2. Description of the Company and Its Business Environment

Unitronics engages, through its Products Department, in the design, development, production, marketing and sale of industrial automation products, mainly programmable logic controllers (hereinafter: "PLCs"). PLCs are computer-based electronic products (hardware and software), used in the command and control of machines performing automatic tasks, such as production systems and automatic systems for industrial storage, retrieval and logistics. The Company also engages, through its Systems Department, in the design, construction and maintenance services in the framework of projects for automation, computerization and integration of computerized production and/or logistics systems, mainly automated warehouses, automated distribution centers and automated parking facilities.

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

The Company operates from facilities located in "Unitronics House", an office and industrial building which is leased, in part, by the Company. Unitronics House is situated at Airport City next to the David Ben-Gurion Airport, and it houses the Company's offices and all its other facilities in Israel.

As of May 2004 the Company's shares are traded on the Tel Aviv Stock Exchange, and as of September 1999 on the Belgian Stock Exchange (first on the EuroNM Stock Exchange and starting from the year 2000, on the EuroNext Stock Exchange in Brussels, Belgium).

3. **Main Events in the Period of the Report and up to Its Publication**

Share Purchase Plans

On March 4, 2010, the Company's Board of Directors approved the adoption of a share acquisition plan of Company shares (the "**Second Plan**"), replacing a Company's previous plan (the "**First Plan**") on the same matter, whose unexcercised balance had expired. In the framework of the Second Plan, the Company's Board of Directors approved acquisitions of Company shares on the Tel Aviv Stock Exchange or the Euronext Stock Exchange in Belgium and/or directly from unrelated parties, at an aggregate value of up to NIS 1.5 million (including expenses in connection therewith, and including fees of advisors and brokers – therefore the total cost expected for the Plan was 1.5 million NIS). Implementation of the Plan was intended to be in effect until June 30, 2010. (For details see immediate report concerning an event which is exceptional to the Company's usual business published March 4, 2010, reference number 2010-01-404196).

On May 23, 2010, the Company Board approved the adoption of a new plan for the Company to purchase Company shares (the "**Third Plan**"), replacing the Second Plan, detailed above (under which up until its expiration, Company shares were purchased at the amount of NIS 820,000 out of the NIS 1.5 million framework). following the purchase of .

Within the framework of the Third Plan, the Board approved acquisitions of Company shares on the Tel-Aviv and/or Belgian stock exchanges and/or directly from an unrelated party (off the floor), at an aggregate value of up to 1.5 million NIS (including expenses in connection therewith, and including fees of advisors and brokers – therefore the total cost expected for the Plan is 1.5 million NIS). Implementation of the Third Plan is intended to be in effect until September 30, 2010. (For details see immediate report concerning an event which is exceptional to the Company's usual business published May 23, 2010, reference number 2010-01-489135).

As of the publication date of this report, the Company has a total of 1,297,688. Shares that were purchased as stated (out of the Company's existing issued capital of 11,678,504 shares), including 3,320 shares that were purchased in accordance with the new plan. As long as these shares remain under the ownership of the Company, the shares are "dormant shares" as this term is defined in the Companies Law, 5759-1999. For further details about these purchases, see immediate reports that were published by the Company from time to time in connection with these purchases, beginning on August 18, 2005.

Payment for Debentures (Series 1)

After the report period, on May 23, 2010, the Company paid the fourth and last installment of the principal and interest for Debentures (Series 1), which were allocated by the Company in 2004 in accordance with the prospectus published on May 12, 2004. (For details see immediate report on payment of the Debentures (Series 1) principal dated May 23, 2010, reference number 489102-01-2010.

Following this payment, no Debentures (Series 1) convertible into Company shares were left in circulation, in accordance with the terms of the said Debentures.

Exercise of Options (Series 2)

On April 22, 2010, the Company received notice of the exercise of 1,958 Options (Series 2), which were allocated by the Company in 2006 in accordance with the prospectus published on August 16, 2006, into ordinary shares of the Company, and in respect thereto the Company allocated 1,958 ordinary shares as stated.

Following the exercise, 598,042 Options (Series 2) convertible into Company shares remained in circulation, in accordance with the terms of the said options (for details see immediate report on the corporation's capital and securities registers and the changes therein dated April 22, 2010, reference number 456504-01-2010).

Additionally, following the allocation an increase occurred in the Company's issued capital, which stands at 11,678,504 ordinary shares.

Changes in the Holdings of Interested Parties

In consequence of the payment of the aforesaid Debenture payments, the exercise of the options and the self-purchase of shares by the Company as stated above and below, and following the payment of the principal and interest of the Debentures (Series 1) principal, the rate of the holdings of Mr. Haim Shani, Company CEO and a controlling shareholder, increased. The rate of holdings of Mr. Shani, as of the date of publication of this report, is: 59.14% of the capital and 59.14% of the voting rights (and on a fully diluted basis after the change: 54.87% of capital and 54.87% of voting rights).

Renewal of Directors' and Officers' Policies

The Company has a directors' and officers' liability insurance policy in the sum of $5,000,000 (five million United States dollars) per event and in total in respect to damage liable to occur during the insurance period (plus an additional $1,000,000 for legal defense expenses in Israel). The Company's deductible in respect to claims to be filed in the U.S. and Canada is $50,000 per case. The insurance period applies retroactively as of August 9, 1989, and is renewed annually with the approval of the Company management, which was authorized by the general meeting of the Company on April 12, 2005 to renew the Company directors' and officers' liability insurance policy for additional periods of up to 18 months each time.

On March 4, 2010, the Company Audit Committee and Board of Directors resolved to approve renewal of the directors' and officers' liability insurance policy for additional periods of 18 months each, in accordance with the framework employment terms (for details, see immediate report concerning a transaction with a director that does not require Shareholders' approval, published on March 4, 2010, reference number 2010-01-404205).

Bonus for the Company CEO and Chairman

On April 12, 2005, the Company general meeting of shareholders approved (after approval of the Company Board of Directors and the Audit Committee) a framework deal whereby Mr. Haim Shani would receive an annual bonus in respect to each calendar year, beginning in 2005, and for as long as Mr. Shani remains employed as Company CEO (hereinafter: "Future Bonuses"), within 30 days from the date of approval of the financial statements by the Company Board of Directors in respect to each calendar year as stated, at a rate of 7.5% of the pretax profit for the year in question (cost to the Company) (hereinafter: "the Framework Deal") (for details see immediate report with regard to the results of the general meeting of Company shareholders dated April 12, 2005).

In accordance with the Company's financial statements for 2009 and in light of the aforesaid, the Company intends to pay Mr. Haim Shani a bonus in respect to 2009 in the sum total of NIS 689 thousand ((hereinafter: "the Bonus") (for details, see immediate report concerning a transaction with a controlling shareholder or a director that does not require Shareholders' approval, published on March 4, 2010, reference number 404199-01-2010).

Agreement for the Construction of an Automated Warehouse

On May 9, 2010, the Company signed an agreement for the construction of an automated warehouse in Israel (hereinafter: the "Agreement"). The Agreement is in effect as of April 30, 2010, which is the date of signing of the Agreement by the client.

The project is estimated at approximately 1.4 million Euro, a sum that is considered material for the Company. Payment of the consideration is expected to be made in accordance with the achieving of milestones throughout the project. The project is expected to end in early 2011. As security for the fulfillment of its obligations in the framework of the Agreement, the Company has undertaken to furnish bank guarantees and also agreed to a pre-determined compensation in certain cases (for details, see immediate report concerning an event or matter deviating from the corporation's ordinary business dated May 9, 2010, reference number 2010-01-474579).

Legal Proceedings

Dispute with Robotic Parking

On December 28, 2006, Robotic Parking Systems Inc (hereinafter: "Robotic") filed an amended lawsuit (pursuant to the original lawsuit from June 2006) against Hoboken City Hall in the State of New Jersey, USA, with regard to an automated parking system that was set up some years previously by Robotic. Unitronics and Unitronics Inc, a company wholly owned and controlled by Unitronics, have been added to the amended lawsuit as additional defendants, *inter alia* in respect to infringements of patents and intellectual property rights, breach of contract and libel. According to the terms of the agreements between Hoboken City Hall and Unitronics, Hoboken City Hall agreed, *inter alia*, to indemnify Unitronics in respect to any damage incurred thereby in consequence of Robotic's lawsuits.

This dispute was resolved by way of a settlement. Main points of the settlement: Mutual withdrawal of existing and/or future claims and actions in connection with the dispute that is the object of the aforementioned proceedings, without payment of any damages whatsoever. The settlement agreement was signed by the parties on July 17, 2007 and was granted the status of a verdict by the US court on July 20, 2007.

In addition, on July 21, 2009, the court in New Jersey authorized the Company to present its position in the framework of an existing lawsuit filed by Robotic against Hoboken City Hall, solely in connection with the presence of protected trade secrets of the Company in the possession of Hoboken City Hall. On October 30, 2009, the Company filed an application for an injunction against Robotic in order to prevent the latter's access to the Company's protected intellectual property and trade secrets, and an injunction as stated was granted, in part.
On October 19, 2010, the Company and Robotic individually appealed the partial nature of the injunction, and on March 23, 2010, these appeals were rejected. The Company appealed the said decision once again, and the appeal is scheduled to be heard on July 22, 2010. Until a decision is handed down in connection with the injunction, an interim injunction was issued ordering the freezing the decision enabling access to the Company's intellectual property and trade secrets.

On July 16, 2009, the Company instituted proceedings in the State of New Jersey, USA, against Robotic, in a lawsuit for the granting of an injunction and compensation for damages in respect to breach of an agreement, breach of contract and abuse of legal proceedings, in consequence of Robotic's attempt to obtain information that is the Company's protected intellectual property and is in the possession of Hoboken City Hall. On September 24, 2009, Robotic petitioned the court to reject the Company's claims, on the grounds that they do not constitute grounds for compensation. Supplementary information on the subject was submitted to the court on October 12, 2009, and the parties are awaiting the court's decision on the subject.

On October 6, the court denied the application for an injunction that was intended to prevent Robotic's access to the Company's protected intellectual property and trade secrets. On November 5, 2009, the Company appealed the said ruling. On January 27, 2010, the Company filed a petition at the court of appeals, for combining the proceedings in the said case and the case above between Robotic and Hoboken City Hall. The appeal is scheduled to be heard on June 7, 2010.

At this stage, the Company is unable to evaluate the chances of these petitions and lawsuits.

Dispute with Hoboken City Hall in New Jersey

According to the terms of the agreements between Unitronics and Hoboken City Hall in the State of New Jersey, USA, with regard to the automated parking lot systems in the city of Hoboken, Hoboken City Hall undertook, *inter alia*, to indemnify Unitronics in respect to any damage incurred thereby in consequence of Robotic's lawsuits (see above).

On April 22, 2010, the Company instituted proceedings in the State of New Jersey, USA, against Hoboken City Hall in the State of New Jersey, in respect to breach of an agreement, on the grounds that the Company was not paid legal expenses and other expenses in connection with the settlement agreement detailed above.

On April 27 the Statement of Claim was submitted to Hoboken City Hall, and an application to waive summonses was filed. No response has been received from City Hall to date.

At this stage, the Company is unable to evaluate the chances of this lawsuit.

Chapter B – Board of Directors Report

1. Financial Status

Assets

No significant change was recorded in total assets according to the consolidated balance sheet of the Company as of March 31, 2010, and it stood at approximately NIS 102,933 thousand compared to approximately NIS 105,407 thousand as of December 31, 2009.

No significant change was recorded in the total of cash, cash equivalents and marketable securities items a decrease was recorded, and it stood at approximately NIS 36,797 thousand as of March 31, 2010 compared to approximately NIS 34,947 thousand as of December 31, 2009.

No significant change was recorded in the trade receivables and income receivable item, and it stood at approximately NIS 12,140 thousand as of March 31, 2010 compared to approximately NIS 13,384 thousand as of December 31, 2009.

An increase of some 34% was recorded in inventory, up from approximately NIS 11,953 thousand as of December 31, 2009 to approximately NIS 116,052 thousand as of March 31, 2010. This increase is primarily due to special equipment procurement required in consequence of the extension of the delivery times for components in the electronics industry. The Company estimates that this trend is likely to continue, and as result it may effect and possibly continue to effect delivery time-tables of Company products, as well as create further exposures to the Company (for details see Section 1.9.6 of the Company's annual report for the year 2009). As of publication of this report, Company has not yet accumulated enough data to allow quantifying of such exposures (Regarding Company's management of the abovementioned exposures, see Company's Methods of Risk Management detailed in section 4 below). The Company continues to act in order to maintain an inventory of parts and raw materials for about 70-120 days, which is intended to meet anticipated demand. In addition, the Company has an inventory of finished products intended for filling ongoing orders for about 35-60 days (for additional details regarding raw materials, suppliers and inventory see Chapter A, section 1.9.23.1 of the Company's annual periodic report for the year 2009).

A decrease was recorded in the work in progress item, and it stood at approximately NIS 921 thousand as of March 31, 2010, compared to approximately NIS 7,835 thousand as of December 31, 2009. The drop is primarily due to recognition of expenses in respect to work in progress in the Systems Segment, in the wake of progress in the implementation of projects, and thus reflects a situation of progress in the implementation of projects on the reporting date only.

No significant change was recorded in fixed assets, which stood at approximately NIS 21,829 thousand as of March 31, 2010, compared to approximately NIS 21,849 thousand as of December 31, 2009.

No significant change was recorded in the net intangible assets item, and it stood at approximately NIS 14,721 thousand as of March 31, 2010, compared to approximately NIS 14,737 thousand as of December 31, 2009. The increase is largely attributable to the recording of Company development assets in respect of which the development costs satisfy the conditions for recognition as an intangible asset, after offsetting current amortization.

Liabilities

Total short-term credit and current maturities of long-term loans, as well current maturities of debenture convertible into shares amounted to approximately NIS 15,417 thousand as of March 31, 2010, compared to approximately NIS 15,292 thousand as of December 31, 2009. This amount derives mainly from current maturities of convertible Debentures (Series 1) payable in May 2010, current maturities of convertible Debentures (Series 2) payable August 2010, and current maturities of long-term loans.

An increase was recorded in the trade payables item, from approximately NIS 10,755 thousand as of December 31, 2009, to approximately NIS 17,946 thousand as of March 31, 2010. The increase in this item is largely due to the increase in the Company's volume of activity and the increase in the inventory item, as explained above.

The embedded derivatives item amounted to NIS 6,762 thousand as of March 31, 2010, compared to NIS 1,501 thousand as of December 31, 2009. The increase in this item is largely due to the continuing drop in the rate of exchange of the Euro relative to the shekel in the reported period. The Company has sales contracts denominated in currencies that are not the Company's operating currency. These contracts include embedded derivatives in foreign currency.

Other accounts payable amounted to approximately NIS 12,947 thousand as of March 31, 2010, compared to NIS 24,751 thousand as of December 31, 2009. The decrease is largely due to a decrease in the customer advances component, stemming from the recognition of income in consequence of progress in the implementation of projects in the Systems Sector.

No significant change was recorded in the total non-current liabilities item as of March 31, 2010, and it amounted to approximately compared to approximately NIS 23,529 thousand, compared to approximately NIS 23,943 thousand as of December 31, 2009.

The Company's working capital decreased to approximately NIS Company's working capital decreased to approximately NIS 26,319 thousand as of March 31, 2010, compared to approximately NIS 16,263 thousand as of December 31, 2009. The decrease is primarily due to an increase in liabilities in respect to embedded derivatives, as detailed above.

The Company's shareholders' equity decreased to approximately NIS to approximately NIS 24,832 thousand as of March 31, 2010, compared to approximately NIS 29,065 thousand as of December 31, 2009. The decrease is mainly due to the loss recorded for the reported period, as detailed below, and from the self-purchase of Company shares as explained above.

2. Operating Results

Revenues

Company revenues in the quarter ended March 31, 2010, amounted to approximately NIS 36,350 thousand, compared to approximately NIS 17,723 thousand in the corresponding quarter in 2009, a 105% increase mainly due to an increase in revenues from the systems segment, as detailed below.

Revenues from the products segment in the quarter ended March 31, 2010 amounted to approximately NIS 17,084 thousand, a 36% increase compared to the same quarter in 2009. In the Company's estimation, the increase in revenues from the products segment stems primarily from an initial change in the downtrend in product sales stemming from the effects of the financial crisis. Nevertheless, the Company has not yet regained the product sales rate characteristic of recent years (for details see Section 1.9.27 of the Company's annual periodic report for 2009).

Revenues from the systems segment in the quarter ended March 31, 2010 amounted to approximately NIS 19,175 thousand, a 284% increase compared to the same quarter in 2009. The increase in revenues from the systems segment stems, in the Company's estimation, from the actual rate of progress in the construction of several logistic systems by the Company's systems department, and mainly the planning and construction of a logistics system for a customer in Israel (for details see Section 1.10.9 B of the Company's annual periodic report for 2009).

Revenues from the products segment in the quarter ended March 31, 2010 constituted approximately 47% of total Company revenues in this quarter, while revenues from the systems segment in the same period accounted for approximately 52% of total revenues (another 1% accounted for other revenues). In the corresponding quarter in 2009, revenues from the products segment constituted approximately 71% of total Company revenues in that quarter, while revenues from the systems segment in the same period constituted approximately 28% of total revenues. Overall for the year 2009, revenues from products accounted for approximately 68% of total revenues, while revenues from systems accounted for approximately 31% of total revenues.

Cost of Revenues and Gross Profit

Total gross profit in the quarter ended March 31, 2010 totaled approximately NIS 11,508 thousand (about 32% of the revenues for the period), compared to approximately NIS 5,901 thousand in the corresponding quarter in 2009 (about 33% of the revenues for the period). In the Company's estimation, the increase in this amount stems mainly from an increase in Company revenues as detailed above.

The moderate decrease in gross profit rates stems mainly from the change in the mix of revenues from the different operating segments, as explained above.

Development Costs, Net

Development costs, net, remained essentially unchanged in the quarter ended March 31, 2010, totaling approximately NIS 644 thousand, compared to approximately NIS 514 thousand in the corresponding quarter in 2009. In the reported period an intangible asset was recognized in respect of development costs amounting to approximately NIS 960 thousand, costs which satisfied the conditions for recognition as an intangible asset.

Development costs in the reported quarter reflect continuing activity in developing technologies and products, which are needed to support continued operations by the Company. During the reported period, the Company adjusted the roster of its development teams to suit the changes in its activities, as detailed in this report, aimed at addressing its business plans.

Selling and Marketing Expenses

An insignificant decrease was recorded in selling and marketing expenses in the quarter ended March 31, 2010, and they amounted to approximately NIS 2,311 thousand (about

6% of revenues), compared to approximately NIS 2,860 thousand (about 16% of revenues) in the corresponding quarter in 2009. In the Company's estimation, this item is likely to increase in the coming quarters, in line with changes in its operation and in order to address its business plans[1].

General and Administrative Expenses

No significant change was recorded in the General and Administrative Expenses item in the quarter ended March 31, 2010, and they amounted to approximately NIS 1,670 thousand, compared to approximately NIS 1,754 thousand in the corresponding quarter in 2009. In the Company's estimation, these expenses are needed for support and management of the Company's operations, including current expenses in the areas of professional consultancy and legal services.

Operating Profit

An increase was recorded in operating profit for the quarter ended March 31, 2010, which amounted to approximately NIS 6,883 thousand, compared to operating profit of approximately NIS 782 thousand in the corresponding quarter in 2009.

The increase in operating profit in the reported quarter in comparison with the corresponding quarter in 2009 is primarily due to a growth in the Company's revenues and an improvement in gross profit stemming from the systems sector.

Financing Expenses and Revenues

Financing revenues, net, in the quarter ended March 31, 2010 amounted to approximately NIS 8,068 thousand, compared to financing revenues, net, of approximately NIS 2,636 thousand in the corresponding period in 2009.

The change in this item is largely due to the recording of expenses in respect to embedded derivatives stemming from a drop in the Euro rate relative to the NIS in the reporting period. The Company has sales contracts denominated in currencies that are not the Company's operating currency. These contracts include embedded derivatives in foreign currency.

An additional change was caused by a decrease in Company revenues stemming from negotiable collateral. In the corresponding quarter of last year, one-time financing income was recorded as a result of the self-purchase of Debentures (Series 2).

1 The information with regard to the anticipated increase in selling and marketing expenses item is forward-looking information. The principal data that served as a basis for this information includes forecasts for the performance of marketing activities by the Company, including manpower recruitment, planned visits to trade shows, trainings for distributors and advertising expenses. The principal factors that might cause this information not to materialize are changes in the Company's marketing plans for reasons that are outside its control (such as changes at the Company's distributors, changes in the Company's principal markets and/or markets in which the Company is not active, marketing activities on the part of competitors).

Commencing August 2006 the Company's exposure to changes in the Israeli CPI rates increased, following the issuance of Debentures (Series 2) under the August 2006 prospectus, which are linked to the Israeli CPI. Apart from this exposure to fluctuations in the Israeli CPI, there is an interest component as a result of said issuance; therefore, the Company estimates that this item will be affected by these factors in the upcoming quarters.

Profit (Loss) for the Period

In the reported period the Company presents a loss amounting to approximately NIS 1,185 thousand, compared with a net profit of approximately NIS 3,418 in the corresponding quarter in 2009 (approximately 2.7% of its revenues).

The Company believes that the financing expenditures detailed above are the principal cause for the net loss recorded for the reported period.

Analysis of Business Results by Operating Segment

As aforementioned, the main commercial activity of the Company is conducted by means of two business departments, the Products Department and the Systems Department. Details of the results of the different segments appear below.

Products Segment

Results of the products segment in the reported period amounted to approximately NIS 6,407 thousand, compared to approximately NIS 4,352 thousand for the corresponding quarter in 2009. The increase in this segment's results for the reported period is due, in the Company's estimation, mainly to the increase in its revenues from this segment in the reported period, as detailed above.

Systems Segment

Results of the systems segment in the reported quarter amounted to a profit of approximately NIS 2,716 thousand, compared to a loss of approximately NIS 1,235 thousand in the corresponding quarter in 2009. In the Company's estimation, the transition to profitability in the results of this segment stem from an increase in revenues from this segment in the reported period, as explained above, and from an improvement in gross profit.

3. Liquidity and Sources of Financing

No significant change was recorded in the balance of cash, cash equivalents and marketable securities of the Company, and it totaled as of March 31, 2010 approximately NIS 36,797 thousand, compared to approximately NIS 34,947 thousand as of December 31, 2009.

Cash flow from operating activities in the quarter ended March 31, 2010 amounted to a positive cash flow of approximately NIS 4,854 thousand, stemming mainly from expenses not involving cash flow, including revaluation of embedded derivatives as explained above.

Cash flow from financing activities in the quarter ended March 31, 2010 amounted to a negative cash flow of approximately NIS 1,595 thousand, primarily due to the recording of the investments in development assets as detailed above

Cash flow from financing activities in the quarter ended March 31, 2010 amounted to a negative cash flow of approximately NIS 1,961 thousand, This negative flow is primarily due to the self-purchase of Company shares.

On March 31, 2010, total credit facilities available to the Company for current operations stood at approximately NIS 9.8 million. On March 31, 2010, a total of approximately NIS 9.4 million was utilized from this credit line mainly for securing the Company's obligations in projects carried out by the Systems Department.

4. Qualitative Report Concerning Exposure to Market Risks and Methods of Risk Management

The persons in the Company responsible for the management of market risks are Company CEO Mr. Haim Shani and Company CFO Mr. Yair Itzkovich. The CFO is responsible for gathering information according to the list of risks detailed below, processing it and presenting it to the CEO on a quarterly basis. The CEO is responsible for analyzing the information and drawing operative conclusions in the framework of quarterly meetings with the CFO.

Exposure to Exchange Rate Fluctuations

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

In May 2004 the Company issued convertible Debentures (Series 1) according to the 2004 prospectus. The principal and interest of these Debentures are linked to the representative exchange rate of the US dollar (according to a base rate of NIS 4.59 per US$ 1); the repayment of the principal of the Debentures began in May 2007. Until their full conversion or repayment in May 2010, the Company is exposed to fluctuations in the exchange rate of the dollar against the NIS.

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

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

The Company's activity is conducted in foreign currency or in NIS linked to foreign currency. In the Company's Products Segment, revenues are mostly denominated in US dollars or linked to the US dollar exchange rate, with the exception of revenues deriving from sales in Europe, which are mostly denominated in Euros. In the Company's Systems Segment, most of the Company's revenues derive from sales denominated in Euros or linked to the Euro exchange rate, and therefore decrease in the NIS/Euro exchange rate is expected to adversely effect Company's financing expenses, and as result effect profitability of Company activities denominated in Euro (Regarding Company's methods for dealing with such decrease in exchange rates, see details regarding the Company's Market Risk Management Policy below).

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

Exposure to Fluctuations in the Consumer Price Index

In August 2006, the Company issued Debentures (Series 2). These Debentures are linked to the Israeli CPI, but not less than a base index of 188.1 (1993 average). As a result, commencing in August 2006 the Company's exposure to fluctuations in the Israeli

CPI increased. Developments and changes in the Israeli economy, including depreciation and inflation, can cause changes in the CPI, impacting the financing income/expenses of the Company.

Risks Related to Marketable Securities

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

Interest Risks

The Company has various loans relating to the acquisition of rights in the Company's facilities in Airport City, convertible Debentures (Series 1) issued by the Company according to the 2004 prospectus, as well as other credit facilities that bear various interest rates and which are exposed to possible changes in the prime and/or LIBOR interest rates.

The Company's Market Risk Management Policy

The Company's policy is to try and reduce, in every contract, its exposure to fluctuations in the exchange rate by matching the currency of the revenues to the currency of the main expenses and/or by hedging the exposure by performing future transactions in foreign currency. In the Company's Systems Segment, the Company usually links the payment terms (dates/ foreign currency) of the various customers to the payment terms of the subcontractors.

Due to the decrease in the NIS/Euro exchange rate over the past months, the Company executed several forward transactions, aimed at hedgeing the above exposure to the fluctuations in exchange rates.

As detailed in Section 1 of Chapter B above, time-tables for delivery of components in the electronic industry have extended, in a manner which may effect delivery time-tables of Company products, as well as create additional potential exposures to the Company. In order to deal with such exposures, Company is undertaking continuously measures for improving efficiency of the processes of equipment procurement and inventory management, including acceleration of component purchasing, outsourcing of certain production activities, and strengthening of the Company's elements engaged in purchasing and operation.

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

The Board of Directors determined, following an examination of the four warning signs specified in Regulation 10(b)(14) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, regarding disclosure of the anticipated cash flow for financing payment of the Company's obligations, that the Company has no liquidity problems and is able to meet its obligations, including the full payment of its liabilities in respect of the issuance of Debentures (Series 2). An examination as stated is performed by the Board of Directors on a quarterly basis, at the time of approval of the financial statements published by the Company for the quarter in question.

5. **Consolidated Linkage Bases Report**

	As of March 31, 2010							
	Israeli Currency			Foreign Currency				
	Unlinked	CPI-Linked		In EURO	In USD	In Other Curr-encies	Non-Monetary Balances	Total
	NIS in Thousands							
Assets								
Cash and cash equivalents	1,953	-		11,013	5,266	-	-	18,232
Marketable securities	6,580	10,867		-	1,118	-	-	18,565
Trade receivables and income receivable	4,944	-		3,528	3,668	-	-	12,140
Other accounts receivable	89	-		-	62	-	135	286
Inventory	-	-		-	-	-	16,052	16,052
Inventory of work in progress	-	-		-	-	-	921	921
Long-term deposits	-	-		-	-	-	187	187
Fixed assets, net	-	-		-	-	-	21,829	21,829
Intangible assets – net	-	-		-	-		14,721	14,721
Total assets	13,566	10,867		14,541	10,114	-	53,845	102,933
Liabilities								
Current maturities of non-current liabilities	102	5,920		461	8,934	-	-	15,417
Trade payables	12,271	-		3,741	1,934	-	-	17,946
Option warrants	-	371		-	-		-	371
Embedded derivatives	-	-		6,762	-	-	-	6,762
Other accounts payable	6,810	-		-	231	-	5,906	12,947
Loans from banks and others	-	360		3,108	2,735	-	-	6,203
Bonds	-	16,228		-	-	-	-	16,228
Liabilities for employee benefits – net		-		-	-	-	1,098	1,098
Total liabilities	19,183	22,879		14,072	13,834	-	7,004	76,972
Balance sheet total, net	(5,617)	(12,012)		469	(3,720)	-	46,841	25,961

6. **Sensitivity Tests on Financial Instruments as of March 31, 2010**

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

1) Table listing changes in the fair value of financial instruments sensitive to fluctuations in the dollar exchange rate

	NIS in Thousands		NIS in Thousands	NIS in Thousands	
	+10% NIS 4.08 per $	+5% NIS 3.9 per $	Fair Value NIS 3.71 per $	5%- NIS 3.53 per $	10%- NIS 3.34 per $
Cash and cash equivalents	527	263	5,266	263-	527-
Marketable securities	112	56	1,118	56-	112-
Trade receivables and income receivable	367	183	3,668	183-	367-
Other accounts receivable	6	3	62	3-	6-
Short-term credit and current maturities of long-term liabilities (*)	41-	20-	8,934-	20	41
Trade payables	193-	97-	-1,934	97	193
Other accounts payable	23-	12-	-231	12	23
Long-term loans	274-	137-	-2735	137	274
Total	481	239	-3,720	239-	481-

* For current maturities of convertible debentures issued at a minimum exchange rate of NIS 4.59 per $.
** The convertible debentures were issued at a minimum exchange rate of NIS 4.59 per $.

2) Table listing changes in the fair value of financial instruments sensitive to fluctuations in the euro exchange rate

Gain (Loss) on Change, NIS in Thousands		NIS in Thousands	Gain (Loss) on Change, NIS in Thousands		
10%- NIS 4.49 per €	5%- NIS 4.74 per €	Fair Value NIS 4.99 per €	+5% NIS 5.24 per €	+10% NIS 5.49 per €	
1,101-	551-	11,013	551	1,101	Cash and cash equivalents
353-	176-	3,528	176	353	Trade receivables and income receivable
46	23	-461	23-	46-	Short-term credit and current maturities of long-term liabilities
374	187	-3,741	187-	374-	Trade payables
676	338	6,762-	338-	676-	Embedded derivatives
311	155	-3,108	155-	311-	Long-term loans
47-	24-	469	24	47	Total

3) Table listing changes in the fair value of financial instruments sensitive to fluctuations in the consumer price index

Gain (Loss) on Change, NIS in Thousands		NIS in Thousands	Gain (Loss) on Change, NIS in Thousands		
10%- 183.98 points	5%- 194.20 points	Fair Value 204.42 points	+5% 214.64 points	+10% 224.86 points	
1,087-	543-	10,867	543	1,087	Marketable securities
473	296	5,920-	296-	592-	Short-term credit and current maturities of long-term liabilities
37	19	371-	19-	37-	Option warrants
36	18	360-	18-	36-	Long-term loans
1,296	811	16,228-	811-	1,623-	Bonds (***)
755	601	-12,012	601-	1,201-	Total

*** Debentures issued based on base CPI of 188.1 points (1993 average)

4) Table listing changes in the fair value of financial instruments sensitive to fluctuations in rates of convertible securities

Gain (Loss) on Change NIS in Thousands		NIS in Thousands	Gain (Loss) on Change NIS in Thousands		
10%-	5%-	Fair Value	+5%	+10%	
585-	292-	5,850	292	585	Local – government
1271-	636-	12,715	636	1,271	Local – corporate
1856-	928-	18,565	928	1,856	Total

7. Dedicated Disclosure to the Debenture Holders

The Corporation's Bonds:

(1)	Security:	Debentures (Series 2)
A	Issue date	August 2006
B	Total par value on issue date	34,000,000
C	Par value	21,520,000
D	Par value according to linkage terms – on the report date	23,590,000
E	Accrued interest on the report date	129,000
F	Book liability value on the report date	22,069,000
G	Value at the Stock Exchange	24,468,000
H	Type of interest, including description	6.1% annual interest
I	Payment dates of principal balance	Balance of four equal annual installments beginning on August 25, 2010
J	Payment dates of interest	On February and August 25 in the years of 2010-2013
K	Details of linkage basis of interest and principal	Principal and interest linked to the Consumer Price Index at a base rate of no less than 188.1 (July 2006 index)
L	Are the bonds convertible	Not convertible
M	Corporation's right to perform early redemption	Does not exist
N	Has a guarantee been given for the payment of the bond in the deed of trust	No
(2)	The trustee in charge of the series of bonds at the nominee company, the trustee's contact details	Hermetic Trust (1975) Ltd Dan Avnon and/or Merav Ofer-Oren, 113 Hayarkon Street, Tel Aviv 63573, telephone: 0305274867, Fax: 03-5271451, e-mail: hermetic@hermetic.co.il

(3) Convertible Debentures (Series 1) – **on May 23, 2010** the Company made the fourth and last payment of the principal and interest for Debentures (Series 1), which were allocated by the Company in 2004 in accordance with the prospectus published in May 12, 2004. Following this payment, no Debentures (Series 1) convertible into Company shares were left in circulation, in accordance with the terms of the said Debentures. (For details see Section 3 above).

(5+6) As at the end of the quarterly report period, the Company has met all the terms and undertakings of the deeds of trust for the Debentures (Series 2), the Company was not found to be in violation of any undertaking or term that was set in the deeds of trust and are not of a technical nature, and no conditions that establish grounds for calling in the bonds for immediate repayment have been met.

(8) The Debentures (Series 2) are not secured by any charge whatsoever. As long as the Company retains an unpaid balance of the principal of Debentures (Series 2) in circulation, the interest and linkage differentials thereon, in order to secure the repayment thereof the Company will refrain from creating additional charges on its assets in excess of the existing ones, in favor of any third party whomsoever, without the trustees' advance and written consent, save with regard to charges on land and/or equipment that is purchased by the Company, whose charges will serve solely in order to secure the funding that was given for purchasing the asset that is the object of the charge – and which the Company will be permitted to create without any restrictions in favor of any person whomsoever.

8. **Details of the Process of Approval of the Company's Financial Statements**

The Company's financial statements are prepared by its CFO. The statements are reviewed (and in the relevant cases also audited) by the Company's auditor, who is given full access to all data and information in the Company, including meetings with the Company's employees and managers, as required by him. Following the auditor's review/audit, the statements are submitted to the members of the Company's Board of Directors for review prior to and in preparation for discussion in board meetings that are convened for this purpose. The Company regards the Board of Directors as the entity in charge of overall control of the Company's financial statements. The members of the Company's Board of Directors and their respective duties in the Company are as follows:

1. Mr. Haim Shani – Chairman of the Board and Company CEO, and a director with professional qualification.
2. Ms. Bareket Shani – Director with professional qualification, Vice President and Head of Human Resources, member of the Credit and Investment Committee and of the Securities Committee of the Company's Board of Directors.
3. Mr. Zvi Livneh, CPA – Director with accounting proficiency, member of the Audit Committee.
4. Mr. Yoel Sela, CPA – External director with accounting proficiency, member of the Audit Committee and of the Investments Committee of the Company's Board of Directors.
5. Mr. Moshe Braz, CPA – External director with accounting proficiency, member of the Audit Committee and of the Securities Committee of the Company's Board of Directors.

Following the Board of Directors' perusal, a board meeting is held for the purpose of presentation and discussion of the financial statements. In the meeting the Company's management reviews the main data of the financial statements. The meeting is also attended by the Company's auditor, who reviews certain aspects of the statements, accounting issues related to the financial statements and the review and audit processes that were conducted by him in the Company, and answers questions of the board members that are addressed to him (together with the Company CEO and the CFO, who answer questions that are addressed to them). Within the framework of the Board of Directors' discussion, comments and/or clarifications or requests for additional data are often made, which are then reflected in the financial statements. At the end of the discussion, the statements are submitted for the Board's approval by a vote.

Zvi Livneh Director	Haim Shani Chairman and CEO

Date: May 23, 2010

UNITRONICS (1989) (R"G) LTD.

Condensed Consolidated Interim Financial Statements
March 31,2010

(Unaudited)

Unitronics (1989) (R"G) Ltd.

Condensed Consolidated Interim Financial Statements

March 31, 2010

(unaudited)

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AMIT, HALFON C.P.A (ISR)
A member firm of **DFK** international
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E-mail: office@ahcpa.co.il

REVIEW REPORT OF THE AUDITIORS OF UNITRONICS (1989) (R"G) LTD.

Introduction

We reviewed the attached financial information of Unitronics (1989) (R"G) Ltd. and its subsidiaries (hereinafter – "the Group") which include the condensed interim consolidated statement of financial position as at March 31, 2010 and the condensed interim consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for the period of three months then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with IAS 34 "Financial reporting for interim periods", and they are responsible for the preparation of financial information for this interim period under Chapter D of the Israeli Securities Regulations (Periodic and Immediate Report) – 1970. Our responsibility is to express a conclusion on the financial information for the interim period, based on our review.

We did not review the condensed financial information for the interim period of a consolidated company whose assets included in the consolidation comprise 5% of all the consolidated assets as at March 31, 2010 and whose revenues included in the consolidation comprise 13% of all consolidated revenues for the period of three months then ended. The condensed financial information for the interim periods of that company were reviewed by other auditors whose review report was furnished to us and our conclusion, to the extent that they relate to financial information for that company, are based on the review report of the other auditors**.**

Scope of the review

We prepared our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of financial information for interim periods prepared by the entity's auditor". The review of the financial information for interim periods comprises clarifications, mainly with the people responsible for financial and accounting matters, and from adopting analytical and other review procedures. A review is more limited in scope to a much larger extent than an audit performed in accordance with generally accepted auditing standards in Israel, and therefore does not enable us to be certain that we will know of all the significant matters which could have been identified in an audit. Consequently, we are not issuing an opinion of an audit.

Conclusion

Based on our review, and on the review report of the other auditors, nothing came to our notice which would cause us to think that the above financial information is not prepared, in all significant aspects, in accordance with IAS34.
In addition to the remarks in the previous paragraph, based on our review, and on the review report of the other auditors, nothing came to our notice which cause us to think that the above financial information does not meet, from all significant aspects, the provisions of Disclosure under Chapter D of the Israeli Securities Regulations (Periodic and Immediate Reports) – 1970.

Amit, Halfon
Certified Public Accountants (Israel)

Ramat Gan,
May 23, 2010

Unitronics (1989) (R"G) Ltd.
Condensed consolidated interim statement of financial position

	March 31, 2010	March 31, 2010	March 31, 2009	December 31, 2009
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro (1)	NIS		
Current assets				
Cash and cash equivalents	3,653	18,232	15,376	16,828
Marketable securities	3,720	18,565	22,160	18,119
Accounts receivable -				
Trade	2,433	12,140	9,397	13,384
Other	57	286	737	543
Embedded derivatives	-	-	221	-
Inventory	3,217	16,052	14,002	11,953
Inventory - work in progress	185	921	217	7,835
	13,265	66,196	62,110	68,662
Non-current assets				
Long-term deposits	37	187	104	159
Property and equipment, net	4,374	21,829	20,916 (*)	21,849 (*)
Intangible assets, net	2,950	14,721	14,255	14,737
	7,361	36,737	35,275	36,745
	20,626	**102,933**	**97,385**	**105,407**

Haim Shani	Tzvi Livne	Yair Itscovich
Chairman of the Board of Directors and C.E.O.	Director	Chief Financial Officer

Approved: May 23, 2010.

(*) Applied retrospectively - see Note 2 B (1).

(1) See note 1C.

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

Unitronics (1989) (R"G) Ltd.
Condensed consolidated interim statement of financial position

	March 31, 2010	March 31, 2010	March 31, 2009	December 31, 2009
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro (1)	NIS		
Current liabilities				
Short-term credit and current maturities of non-current loans	210	1,047	1,041	986
Current maturities of bonds and convertible bonds	2,879	14,370	14,239	14,306
Accounts payable -				
Trade	3,596	17,946	9,246	10,755
Other	2,594	12,947	11,299	24,751
Warrants	74	371	35	100
Embedded derivatives	1,355	6,762	-	1,501
	10,708	53,443	35,860	52,399
Non current liabilities				
Loans from banks and others	1,243	6,203	7,527	6,780
Convertible bonds	-	-	7,990	-
Bonds	3,252	16,228	20,639	16,226
Liabilities for benefits to employees, net	220	1,098	537	937
	4,715	23,529	36,693	23,943
Shareholders' equity				
Share capital	71	352	352	352
Capital reserve from share-based payments	-	-	326	-
Share premium	10,134	50,576	50,250	50,576
Capital reserve from translation of foreign operations	(168)	(840)	(191)	(743)
Company shares held by the company	(996)	(4,972)	(2,931)	(3,150)
Accumulated loss	(3,838)	(19,155)	(22,974)	(17,970)
	5,203	25,961	24,832	29,065
	20,626	**102,933**	**97,385**	**105,407**

(1) See note 1C.

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

Unitronics (1989) (R"G) Ltd.
Condensed consolidated interim statement of operations

	For the three month period ended March 31,	For the three month period ended March 31,		For the year ended December 31,
	2010	2010	2009	2009
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro (1)	NIS		
Revenues	7,284	36,350	17,723	84,118
Cost of revenues	4,978	24,842	11,822	55,385
Gross profit	2,306	11,508	5,901	28,733
Development expenses, net	129	644	514	2,116
Selling & marketing expenses	463	2,311	2,860	9,896
General & administrative expenses	335	1,670	1,745	6,613
Capital gain	-	-	-	63
Operating profit	1,379	6,883	782	10,171
Financing income	159	790	4,260	5,380
Financing expenses	1,775	8,858	1,624	7,069
Profit (loss) for the period	(237)	(1,185)	3,418	8,482
Profit (loss) per 1 ordinary share NIS 0.02 par value (NIS)	(0.022)	(0.111)	0.310	0.771

(1) See note 1C.

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

Unitronics (1989) (R"G) Ltd.
Condensed consolidated interim statement of comprehensive income

	For the three month period ended March 31,	For the three month period ended March 31,		For the year ended December 31,
	2010	2010	2009	2009
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro (1)	NIS		
Profit (loss) for the period	(237)	(1,185)	3,418	8,482
Other comprehensive income				
Actuarial gain	-	-	172	112
Translation of foreign operation	(19)	(97)	542	(10)
Other comprehensive income for the period	(19)	(97)	714	102
Total comprehensive income (loss) for the period	(256)	(1,282)	4,132	8,584

(1) See note 1C.

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

Unitronics (1989) (R"G) Ltd.
Condensed consolidated interim statement of changes in equity

	Share capital	Capital reserves from share-based payments	Share premium	Capital reserve from translation of foreign operations	Company shares held by the company	Accumulated Loss	Total
	NIS in thousands						
Balance at January 1, 2009 (audited)	352	326	50,250	(733)	(2,931)	(26,564)	20,700
Purchase of company shares by the company	-	-	-	-	(219)	-	(219)
Warrants expiration	-	(326)	326	-	-	-	-
Total comprehensive income for the year	-	-	-	(10)	-	8,594	8,584
Balance at December 31, 2009 (audited)	352	-	50,576	(743)	(3,150)	(17,970)	29,065
Purchase of company shares by the company	-	-	-	-	(1,822)	-	(1,822)
Total comprehensive loss for the period	-	-	-	(97)	-	(1,185)	(1,282)
Balance at March 31, 2010 (unaudited)	352	-	50,576	(840)	(4,972)	(19,155)	25,961
Balance at January 1, 2009 (audited)	352	326	50,250	(733)	(2,931)	(26,564)	20,700
Total comprehensive income for the period	-	-	-	542	-	3,590	4,132
Balance at March 31, 2009 (unaudited)	352	326	50,250	(191)	(2,931)	(22,974)	24,832
	Convenience translation into Euro in thousands (unaudited) (1)						
Balance at January 1, 2010	71	-	10,134	(149)	(631)	(3,601)	5,824
Purchase of company shares by the company	-	-	-		(365)	-	(365)
Total comprehensive income for the period	-	-	-	(19)	-	(237)	(256)
Balance at March 31, 2010	71	-	10,134	(168)	(996)	(3,838)	5,203

(1) See note 1C.

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

Unitronics (1989) (R"G) Ltd.
Condensed consolidated interim statement of Cash Flows

	For the three month period ended March 31,	For the three month period ended March 31,		For the year ended December 31,
	2010	2010	2009	2009
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro (1)	NIS		
Cash flows from operating activities				
Profit (loss) for the period	(237)	(1,185)	3,418	8,482
Adjustments necessary to show the cash flows from operations (Appendix A)	1,210	6,039	(2,777)	9,749
Cash flows provided by operating activities	973	4,854	641	18,231
Cash flows for investing activities				
Sale of (investment in) marketable securities, net	(35)	(176)	7,336	12,298
Purchase of property and equipment	(77)	(384)	(47)	(2,364)
Sale of property and equipment	-	-	-	180
Investment in long-term deposits	(2)	(100)	-	(166)
Repayment of long-term deposits	-	89	25	218
Investment in intangible assets	(205)	(1,024)	(1,486)	(4,829)
Cash flows provided by (used in) investing activities	(319)	(1,595)	5,828	5,337
Cash flows for financing activities				
Short-term credit, net	20	102	-	-
Repayment of long-term loans	(48)	(241)	(281)	(1,076)
Repayment of convertible bonds	-	-	-	(8,600)
Early redemption of bonds	-	-	(5,286)	(5,286)
Early redemption of convertible bonds	-	-	(272)	(272)
Repayment of bonds	-	-	-	(5,858)
Purchase of company shares by the company	(365)	(1,822)	-	(219)
Cash flows used in financing activities	(393)	(1,961)	(5,839)	(21,311)
Translation differences in respect of foreign operations cash balances	21	106	187	12
Change in cash and cash equivalents	281	1,404	817	2,269
Cash and cash equivalents at beginning of period	3,372	16,828	14,559	14,559
Cash and cash equivalents at end of period	3,653	18,232	15,376	16,828

(1) See note 1C.

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

Unitronics (1989) (R"G) Ltd.
Condensed consolidated interim statements of cash flows

	For the three month period ended March 31,	For the three month period ended March 31,		For the year ended December 31,
	2010	2010	2009	2009
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro (1)	NIS		
Appendix A - Adjustments necessary to show the cash flows from operations				
Depreciation and amortization	346	1,729	1,870	6,844
Profit from marketable securities, net	(54)	(270)	(1,796)	(2,717)
Capital gain	-	-	-	(63)
Increase (decrease) in liabilities for benefits to employees, net	32	161	(93)	246
Reevaluation of warrants	54	271	17	83
Exchange rate changes of long-term loans and convertible bonds	(121)	(602)	404	1,649
Reevaluation of embedded derivatives	1,054	5,261	(436)	1,286
Profit from early redemption of bonds	-	-	(1,838)	(1,838)
Decrease (increase) in accounts receivable – trade	241	1,204	2,129	(2,106)
Decrease (increase) in accounts receivable - other	48	238	(418)	(273)
Decrease (increase) in inventory	(825)	(4,117)	(768)	1,364
Decrease (increase) in inventory - work in progress	1,385	6,914	-	(7,835)
Increase (decrease) in accounts payable - trade	1,413	7,050	(298)	1,213
Increase (decrease) in accounts payable - other	(2,363)	(11,800)	(1,550)	11,896
	1,210	6,039	(2,777)	9,749
Appendix B - Additional information				
Cash paid during the period for:				
Interest	152	761	957	2,628
Taxes on income	5	27	27	108
Cash received during the period for:				
Interest	36	179	242	835

(1) See note 1C.

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

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

Note 1 - General

A. These financial statements have been prepared in a condensed format as of March 31, 2010, and for the three months period then ended ("consolidated interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as at December 31, 2009 and for the year then ended.

B. 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, 2010	204.42	4.9905	3.713
March 31, 2009	198.15	5.5736	4.188
December 31, 2009	206.19	5.4417	3.775
Change during the period	%	%	%
Three month ended March 31, 2010	(0.86)	(8.29)	(1.64)
Three month ended March 31, 2009	(0.14)	5.22	10.15
For the year ended December 31 2009	3.92	2.73	(0.71)

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

C. Convenience translation in EURO

For the convenience of the reader, the NIS amounts for the last reported period have been translated in EURO by dividing each NIS amount by the representative rate of exchange of the EURO as at March 31, 2010 (EURO 1 = NIS 4.9905).
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

A. The interim consolidated financial statements are prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods as set forth in IAS 34 – "Financial reporting for interim periods" including the requirements of disclosure under Chapter D of the Israeli Securities Regulations (Periodic and Immediate Reports) – 1970.
The significant accounting principles and the methods of calculation which were implemented in the preparation of the interim financial statements are identical to those used in the preparation of the last annual financial statements, apart from those mentioned in clause b below.

B. Disclosure of new IFRS

1. Amendment to IAS 17 – "Leasing" (hereinafter – "the Amendment")
In accordance with the amendment to IAS 17 the specific directive regarding the method of classifying the leasing of land as operative or financial leasing has been canceled. Consequently there is no longer a demand to classify the leasing of land as operative leasing in every case that ownership is not expected to be transferred to the lessee at the end of the lease period, but the leasing of land must be examined according to the general directives appearing in IAS 17 which relate to the classification of leasing as operative or financial while considering that land, generally, has an undefined economic lifespan. The amendment is being implemented as from these financial statements, while implementing the comparative figures retrospectively. In order to implement them retrospectively, the classification of leasing the land was re-examined on the basis of the information which existed at the time of the engagement in the leasing according to the ordinary criteria appearing in IAS 17 for classifying financial or operative leasing. Consequently leasing land from the Israel Lands Administration is financial leasing.

Note 2 - Significant Accounting Policies (cont'd)

B. Disclosure of new IFRS (cont'd)

1. Amendment to IAS 17 – "Leasing" (hereinafter – "the Amendment") (cont'd)

   As a result of the first implementation of the Standard the balance of the prepayments for the leasing of land from the Israel Lands Administration was classified as an item of fixed assets as this relates to land on which the Company's offices have been built. Consequently there is an increase in the fixed assets item of NIS 3,002 thousand and NIS 3,054 thousand as at December 31, 2009 and 2008 respectively.

   As the payment of lease was made on the date of the engagement, the amendment did not affect the measurement of land but its classification only, therefore there has been no effect on retained earnings as at December 31, 2009 and on comprehensive income (loss) for the periods presented.

2. Amendments, standards and interpretations to the existing standards which came into force and are binding for accounting periods starting January 1, 2010, but the first implementation did not have any significant effect on the Group's financial statements:

   a. IFRS 5 (amended) - Non current assets held for sale and discontinued operations
   b. IFRS 3 (amended) - Business combinations; and IAS 27 (amended) - separate and consolidated financial statements
   c. Amendment to IFRS 8 – "Operating segments"
   d. Amendment to IAS 7 – "Statements of cash flows"

C. Disclosure of new IFRS during the period prior to their implementation

IFRS 9 – Financial instruments

In November 2009, IFRS 9 'Financial Instruments' - which is the first stage in the project of replacing IAS 39 'Financial Instruments: Recognition and Measurement' - was published. IFRS 9 focuses mainly on the classification and measurement of financial instruments and applies to all financial instruments on which IAS 39 apply.
The Standard stipulates that on first recognition of the financial instruments (including complex instruments in which the hosting contract is a financial asset) all will be measured at fair value. During later periods, the debt instruments will be measured at a reduced cost only if the following accumulative conditions exist:

- The asset is held in the framework of a business model, whose object is to hold assets so as to back up contractual cash flows resulting from them.
- According to the contractual terms of the financial asset, the Company is entitled, at certain times, to receive cash flows which are only payments of principal and payments of interest on the balance of the principal.

The later measurement of all the other debt instruments and other financial assets will be at fair value.
Financial assets which are capital instruments will be measured at later periods at fair value, and the difference will be recorded to the statement of operations or to the comprehensive income, depending on the choice of the accounting policy regarding every instrument. If this relates to capital instruments held for trading purposes, it is compulsory to measure them at fair value through the statement of operations. The choice is final and cannot be changed. Nevertheless, when the Company changes its business model to manage the financial assets, it must reclassify all the financial instruments affected from the change in the business model in order to reflect this change. In all the other circumstances, no reclassification may be made of the financial instruments. The starting date of the Standard is January 1, 2013. Earlier adoption is possible. The first adoption will be done retrospectively while restating the comparative figures subject to the exemptions stated in the Standard. The Company is examining the possible effects of the new Standard; but, at this stage, it is unable to estimate its effect, if any, on the financial statements.

Note 3 - Business segments

A. The Group defined the Company's CEO who makes the strategic decisions as the chief operating decision maker, of the Group. The CEO reviews the internal reports of the Group in order to evaluate performance and allocate recourses and determines the operating segments based on these reports. The CEO examines the segments operating performance on the basis of measuring operating income, this measurement basis is not affected by one time expenses in the operating segments, such as the costs of structural change and an impairment in the value of assets, where the impairment in value results from a single one time event. Interest revenues and expenses are not included in the results in each of the operating segments examined by senior management.

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

C. Revenues

	For the three month period ended March 31,	For the three month period ended March 31,		For the year ended December 31,
	2010	2010	2009	2009
	(unaudited)	(unaudited)		(audited)
	(in thousands)			
	Convenience translation into Euro	NIS		
Products	3,423	17,084	12,555	57,496
System integration projects	3,843	19,175	4,999	26,133
Other	18	91	169	489
	7,284	36,350	17,723	84,118

B. Segment results

Products	1,284	6,407	4,352	22,329
System integration projects	544	2,716	(1,235)	29
Other	(1)	(6)	(16)	(223)
Unallocated corporate expenses	(448)	(2,234)	(2,319)	(11,964)
Operating profit	1,379	6,883	782	10,171
Unallocated financing income	159	790	4,260	5,380
Unallocated financing expenses	1,775	8,858	1,624	7,069
Profit (loss) for the period	(237)	(1,185)	3,418	8,482

UNITRONICS (1989) (R"G) LTD.

Financial data from the consolidated financial statements attributed to the company itself

March 31,2010

(Unaudited)

AMIT, HALFON C.P.A (ISR)
A member firm of **DFK** international
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To the shareholders of Unitronics (1989) (R"G) Ltd.

Re: Special review report on separate interim financial information under Regulation 38D to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

Introduction

We reviewed the separate interim financial information presented under Regulation 38D to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Unitronics (1989) (R"G) Ltd. (hereinafter – "the Company") as at March 31, 2010 and for the period of three months then ended. The separate financial information is in the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial information for the interim period, based on our review.

We did not review the separate interim financial information of an affiliated company which the investment in it amount to NIS 1,220 thousands as at March 31, 2010 and which the company's share of its profits amount to NIS 204 thousands for the period of three months then ended. The condensed financial information for the interim period of that company were reviewed by other auditors whose review report was furnished to us and our conclusion, to the extent that they relate to financial information for that company, are based on the review report of the other auditors**.**

Scope of the review

We prepared our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of financial information for interim periods prepared by the entity's auditor". The review of the financial information for interim periods comprises clarifications, mainly with the people responsible for financial and accounting matters, and from adopting analytical and other review procedures. A review is more limited in scope to a much larger extent than an audit performed in accordance with generally accepted auditing standards, and therefore does not enable us to be certain that we will know of all the significant matters which could have been identified in an audit. Consequently, we are not issuing an opinion of an audit.

Conclusion

Based on our review, and on the review report of the other auditors, nothing came to our notice which would cause us to think that the above separate interim financial information is not prepared, in all significant aspects, in accordance regulation 38D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Amit, Halfon
Certified Public Accountants (Israel)

Ramat Gan,
May 23, 2010

Unitronics (1989) (R"G) Ltd.

Assets and liabilities included in the consolidated financial statements attributed to the company

	March 31, 2010	March 31, 2010	March 31, 2009	December 31, 2009
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro (1)	NIS		
Current assets				
Cash and cash equivalents	3,436	17,147	13,377	13,232
Marketable securities	3,720	18,565	22,160	18,119
Accounts receivable -				
Trade	1,900	9,481	7,668	11,079
Other	44	222	647	483
Accounts receivable - other - subsidiaries	685	3,417	3,730	5,806
Embedded derivatives	-	-	221	-
Inventory	3,085	15,398	13,116	11,196
Inventory - work in progress	185	921	217	7,835
	13,055	65,151	61,136	67,750
Non-current assets				
Assets less liabilities associated with subsidiaries	244	1,220	925	1,114
Long-term deposits	37	187	104	159
Property and equipment, net	4,326	21,590	20,678	(21,602 (*)
Intangible assets, net	2950	14,721	14,255	14,737
	7,557	37,718	35,962	37,612
	20,612	**102,869**	**97,098**	**105,362**

Haim Shani Chairman of the Board of Directors and C.E.O.	Tzvi Livne Director	Yair Itscovich Chief Financial Officer

Approved: May 23, 2010.

(*) Applied retrospectively - see Note 2 B (1) to the consolidated financial statements.

(1) See note 1C.

Unitronics (1989) (R"G) Ltd.
Assets and liabilities included in the consolidated financial statements attributed to the company

	March 31, 2010	March 31, 2010	March 31, 2009	December 31, 2009
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro (1)	NIS		
Current liabilities				
Short-term credit and current maturities of non-current liabilities	210	1,047	1,041	986
Current maturities of bonds and convertible bonds	2,879	14,370	14,239	14,306
Accounts payable -				
Trade	3,575	17,841	9,117	10,654
Other	2,542	12,685	11,054	24,511
Warrants	74	371	35	100
Embedded derivatives	1,355	6,762	-	1,501
	10,635	53,076	35,486	52,058
Non current liabilities				
Loans from banks and others	1,243	6,203	7,527	6,780
Convertible bonds	-	-	7,990	-
Bonds	3,251	16,228	20,639	16,226
Liabilities for benefits to employees, net	220	1,098	537	937
Provision for loss of subsidiary	60	303	87	296
	4,774	23,832	36,780	24,239
Shareholders' equity				
Share capital	71	352	352	352
Capital reserve from share-based payments	-	-	326	-
Share premium	10,134	50,576	50,250	50,576
Capital reserve from translation of foreign operations	(168)	(840)	(191)	(743)
Company shares held by the company	(996)	(4,972)	(2,931)	(3,150)
Accumulated loss	(3,838)	(19,155)	(22,974)	(17,970)
	5,203	25,961	24,832	29,065
	20,612	**102,869**	**97,098**	**105,362**

(1) See note 1C.

Unitronics (1989) (R"G) Ltd.

Revenues and expenses included in the consolidated financial statements attributed to the company

	For the three month period ended March 31,	For the three month period ended March 31,		For the year ended December 31,
	2010	2010	2009	2009
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro (1)	NIS		
Revenues	6,326	31,571	14,617	68,810
Revenues from subsidiaries	646	3,223	2,345	10,428
Total revenues	6,972	34,794	16,962	79,238
Cost of revenues	4,938	24,644	11,332	54,165
Gross profit	2,034	10,130	5,630	25,073
Development expenses, net	129	644	514	2,116
Selling & marketing expenses	284	1,417	1,852	6,680
General & administrative expenses	276	1,379	1,421	5,447
General & administrative expenses to subsidiaries	25	125	123	546
Capital gain	-	-	-	63
Operating profit	1,320	6,565	1,720	10,437
Financing income	158	790	4,128	5,380
Financing expenses	1,751	8,737	1,624	6,971
Profit (loss) for the period	(273)	(1,382)	4,224	8,756
The Company's share of subsidiaries profits (losses)	39	197	(806)	(274)
Profit (loss) for the period attributed to the company's shareholders	(234)	(1,185)	3,418	8,482

(1) See note 1C.

Unitronics (1989) (R"G) Ltd.

Comprehensive income included in the consolidated financial statements attributed to the company

	For the three month period ended March 31,	For the three month period ended March 31,		For the year ended December 31,
	2010	2010	2009	2009
	(unaudited)	(unaudited)		(audited)
	(in thousands)			
	Convenience translation into Euro (1)	NIS		
Profit (loss) for the period	(234)	(1,185)	3,418	8,482
Other comprehensive income				
Actuarial gain	-	-	172	112
Translation of foreign operation	(19)	(97)	542	(10)
Other comprehensive income for the period	(19)	(97)	714	102
Total comprehensive income (loss) for the period	(253)	(1,282)	4,132	8,584

(1) See note 1C.

Unitronics (1989) (R"G) Ltd.
Cash Flows included in the consolidated financial statements attributed to the company

	For the three month period ended March 31,	For the three month period ended March 31,		For the year ended December 31,
	2010	2010	2009	2009
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro (1)	NIS		
Cash flows from operating activities				
Profit (loss) for the year attributed to the company's shareholders	(234)	(1,185)	3,418	8,482
Adjustments necessary to show the cash flows from operations (Appendix A)	1,252	6,259	(3,008)	10,032
Cash flows provided by operating activities of the company	1,018	5,074	410	18,514
Cash flows provided by operating activities from transactions with subsidiaries	479	2,390	807	(1,514)
Cash flows provided by operating activities	1,497	7,464	1,217	17,000
Cash flows from investing activities				
Sale of (investment in) marketable securities, net	(35)	(176)	7,336	12,298
Purchase of property and equipment	(76)	(377)	(43)	(2,281)
Sale of property and equipment	-	-	-	180
Investment in long-term deposits	(20)	(100)	-	(166)
Repayment of long-term deposits	18	89	25	218
Investment in intangible assets	(205)	(1,024)	(1,486)	(4,873)
Cash flows provided by (used in) investing activities	(318)	(1,588)	5,832	5,376
Cash flows for financing activities				
Short-term credit, net	19	102	-	-
Repayment of long-term loans	(48)	(241)	(281)	(1,076)
Repayment of convertible bonds	-	-	-	(8,600)
Early redemption of bonds	-	-	(5,286)	(5,286)
Early redemption of convertible bonds	-	-	(272)	(272)
Repayment of bonds	-	-	-	(5,858)
Purchase of company shares by the company	(365)	(1,822)	-	(219)
Cash flows used in financing activities	(394)	(1,961)	(5,839)	(21,311)
Change in cash and cash equivalents	785	3,915	1,210	1,065
Cash and cash equivalents at beginning of period	2,651	13,232	12,167	12,167
Cash and cash equivalents at end of period	3,436	17,147	13,377	13,232

(1) See note 1C.

Unitronics (1989) (R"G) Ltd.
Cash Flows included in the consolidated financial statements attributed to the company

	For the three month period ended March 31,	For the three month period ended March 31,		For the year ended December 31,
	2010	2010	2009	2009
	(unaudited)	(unaudited)		(audited)
		(in thousands)		
	Convenience translation into Euro (1)	NIS		
Appendix A - Adjustments necessary to show the cash flows from operations				
The Company's share of subsidiaries losses (profits)	(39)	(194)	563	274
Depreciation and amortization	344	1,718	1,854	6,828
Profit from marketable securities, net	(54)	(270)	(1,796)	(2,717)
Capital gain	-	-	-	(63)
Increase (decrease) in liabilities for benefits to employees	32	161	(93)	246
Reevaluation of warrants and conversion option of convertible bonds	54	271	17	82
Exchange rate changes of long-term loans and convertible bonds	(121)	(602)	404	1,649
Reevaluation of embedded derivatives	1,054	5,261	(436)	1,286
Profit from early redemption of bonds	-	-	(1,838)	(1,838)
Decrease (increase) in accounts receivable – trade	320	1,598	1,191	(2,220)
Decrease (increase) in accounts receivable - other	49	244	(388)	(304)
Decrease (increase) in inventory	(842)	(4,202)	(622)	1,298
Decrease (increase) in inventory - work in progress	1,385	6,914	(217)	(7,835)
Increase (decrease) in accounts payable - trade	1,440	7,187	(221)	1,317
Increase (decrease) in accounts payable - other	(2,370)	(11,827)	(1,426)	12,029
	1,252	6,259	(3,008)	10,032

(1) See note 1C.

Unitronics (1989) (R"G) Ltd.

Additional information

Note 1 - General

A. These separate interim financial information have been prepared in accordance regulation 38D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 and do not includes all the information required in regulation 9C and the 10th addition of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 about separate financial information of the company. These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of December 31, 2008 and for the year then ended.

B. Consolidated companies - defined in Note 1D to the consolidated financial statements as at December 31, 2009.

C. Convenience translation in EURO

For the convenience of the reader, the NIS amounts for the last reported period have been translated into EURO by dividing each NIS amount by the representative rate of exchange of the EURO as at March 31, 2010 (EURO 1 = NIS 4.9905).

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