Unitronics (1989)(R"G) LTD.

Quarterly Report as of June 30, 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 June 30, 2006 (1 EUR = 5.6435 NIS).

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

CHAPTER A – PREFACE

1. General

Company's Name:	Unitronics (1989) (R"G) Ltd. (hereinafter: the "**Company**" or "**Unitronics**")
Company No.:	520044199
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2. Description of the Company and its business environment

Unitronics is engaged through its Products Department in design, development, production, marketing, sale and support 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 design, construction and maintenance services in the framework of projects for automation, computerization and integration of computerized production and/or logistic systems, mainly automatic warehouses and automated distribution 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 its other facilities in Israel are located there.

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

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

3.1 Public Offering and listing for trade

The Company published in Israel a prospectus dated August 16, 2006 (the "2006 Prospectus"), whereby it offered the public to purchase units comprising of the Company's Debentures (Series 2), and Option Deeds (Series 2) exercisable into Ordinary Shares of the Company, in 100,000 units (the "Units"), by way of a tender with respect to each Unit's price.

The Units' price and composition was as follows:

NIS 340 nominal value Debentures (Series 2) at an aggregate price per Unit of	NIS 319.6 (about EUR 56.6)
6 Option Deeds (Series 2) with nil purchase price	NIS 0.0 (EUR 0)
Minimum price per Unit	NIS 319.6 (about EUR 56.6)
Maximum price per Unit	NIS 331.5 (about EUR 58.7)

In the tender, which was conducted on August 24, 2006, the Company received 68 orders to purchase 102,938 Units (including orders from Institutional Investors to purchase 80,000 Units in an aggregate amount of NIS 25,352,000 (about EUR 4,492,248)).

The tender's outcome was as follows:

- The price per Unit was determined as NIS 319.60 (about EUR 56.6) (the "Price Per Unit") and the allocation of Units was as follows:
  - 12 orders to purchase 2,117 Units, which stipulated a price per Unit higher than the Price Per Unit, were fully accepted.
  - 33 orders to purchase 20,821 Units, which stipulated the Price Per Unit, were partly accepted so that each such applicant received 85.74 % of its order (rounded up to the nearest full Unit).
  - 23 orders of Institutional Investors to purchase 80,000 Units were fully accepted at the Price Per Unit.
- The immediate gross proceeds received by the Company for the securities offered pursuant to the Prospectus is NIS 31,960,000 (about EUR 5,663,152).

3.2 Authorization to Purchase Ordinary Shares of the Company by the Company

Further to the Company purchases of Ordinary Shares of the Company effected within the trade on the stock exchange from time to time as of August 18th 2005 until March 27th 2006, due to the relatively low prices of the Company's shares on the stock exchange and as a vote of confidence in the Company and its performance, the Company's Board of Directors approved on June 22, 2006 an additional purchase of Ordinary Shares of the Company for a total sum of NIS 2,000,000 (about EUR 354,390), at a maximum price of NIS 6.50 (about EUR 1.15) per share (in addition to a total of 132,425 shares purchased during such period for a total sum of approx. NIS 641 thousand (about EUR 114 thousand). As long as these shares are owned by the Company, they are “dormant shares” within the meaning of this term in the Israeli Companies Law, 5759-1999. Until the report date the Company did not acquire any additional Company shares.

3.3 Events Published Within the First Quarter Report

The following events took place during the reported period and were previously reported within the first quarter report for the year 2006 on May 21, 2006:

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 concerning a transaction with the Controlling Shareholder, published March 27th, 2006 (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 re-appointed 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).

3.4 Contracts Executed During the Report Period

Contract to Supply an additional Logistic System to Home-Center

"Home-Center" (an Israeli Do-It-Yourself network) (the "Client"), retained Unitronics' services for the design, supply and installation of an additional automated logistic system to be installed in Home-Center's logistic center in Israel, in which an existing automatic system was installed by Unitronics two years ago.

Pursuant to the agreement, the system to be installed in the project will be based upon Unitronics' PLCs, other control software tools developed by Unitronics as well as other components and elements to be supplied and installed by Unitronics through certain sub-contractors. In accordance with the agreement, in consideration, the Client undertook to pay Unitronics an aggregate total amount estimated on the date of the agreement to be approximately NIS 5.5 million, linked to the Euro (approximately EUR 1 million), plus V.A.T in agreed mile-stone linked installments. The agreement also provides that in order to secure its obligations under the agreement, Unitronics will provide certain guaranties, which are to be released in portions according to the progress of the work on the project. According to the agreement, the project is intended to be completed through the first quarter of 2007.

Contract to Supply a Logistic System to Poliva

Unitronics executed an agreement with Poliva Ltd. an Israeli client engaged in production, import and marketing of raw materials for the baking industry (the "Client"), for the design, supply and installation of an automated logistic system, to be installed at the Client's facility in Israel, including the construction of a new warehouse and the design of production infrastructures. The Client was also granted the right to add to Unitronics' services, an expansion project of an existing warehouse, subject to the parties' agreement as to the terms and details of such service.

Pursuant to the agreement, the system to be installed in the Project will be based upon Unitronics' PLCs, other control software tools developed by Unitronics as well as other components and elements to be supplied and installed by Unitronics through certain sub-contractors. In accordance with the agreement, in consideration, the Client undertook to pay Unitronics an aggregate total amount (partially linked to the Euro) estimated on the date of the agreement to be approximately NIS 7 million (approximately EUR 1.2 million), plus V.A.T in agreed mile-stone linked installments. To secure its obligations under the agreement, Unitronics undertook to provide certain guaranties, which are to be released in portions according to the progress of the work on the project. According to the agreement, the project is planned for completion through the first quarter of 2007.

Contract to Supply an Automated Logistic System for a Distribution Center of Tnuva

"Tnuva" (an Israeli dairy products provider) (the "Client"), retained Unitronics' services for the design, supply and installation of an automated logistic system to be installed in a distribution center in Israel.

Pursuant to the agreement, the system to be installed in the project will include a refrigerated automatic storage and retrieval system and will be based upon Unitronics' PLCs, other control software tools developed by Unitronics as well as other components and elements to be supplied and installed by Unitronics through certain sub-contractors. In accordance with the agreement, in consideration, the Client undertook to pay Unitronics an aggregate total amount estimated on the date of the agreement to be approximately NIS 21 million, linked to the Euro (approximately EUR 3.72 million), plus V.A.T in agreed mile-stone linked installments. The agreement also provides that in order to secure its obligations under the agreement, Unitronics will provide certain guaranties, which are to be released in portions according to the progress of the work on the project. According to the agreement, the project is intended to be completed through the second quarter of 2007.

Contract to Upgrade a Logistic System for Colmobil

"Colmobil" – an Israeli client engaged in cars and automobile-parts importing (the "Client"), retained Unitronics' services for the upgrade, improvement and maintenance of an automated warehouse and related systems installed at the Client's facility in Rosh-Haayin, Israel, used for storage, order picking and shipping of automobile parts.

Pursuant to the agreement, existing software and control systems will be removed and replaced with a system based upon Unitronics' PLCs, other control software tools developed by Unitronics as well as other components and elements to be supplied and installed by Unitronics. In accordance with the agreement, in consideration, the Client undertook to pay Unitronics an aggregate total amount estimated on the date of the agreement to be approximately EUR 450 thousand (approximately NIS 2.5 million), plus V.A.T in agreed mile-stone linked installments. The agreement also provides that in order to secure its obligations, Unitronics will provide certain guaranties, which are to be released in portions according to the progress of the work on the project. The project is targeted for completion during the fourth quarter of 2007.

3.5 Legal Procedures

Dispute with IMO

Unitronics encountered a dispute with IMO Jeambrun Automation SAS (heretofore IMO) of France which in August 2004 acquired the business of Unitronics' exclusive distributor in France after it was declared insolvent. Unitronics was not interested in continuing the agreement with IMO, which to the Company's estimate is a competitor of the Company, and served it in October 2004 with prior notice of termination. IMO claimed against the termination of the agreement and in connection therewith several disputes have risen, as follows:

In April 2005 Unitronics appealed to the Israeli court to appoint an arbitrator to assess IMO's claims against termination of the agreement with it following a prior notice of 6 months and a parallel request to permit legal process outside the Israeli Territory. This matter was addressed on February 26, 2006 and it was decided that IMO shall relinquish its claim of lack of international jurisdiction and that it would claim only against the appointment of an arbitrator, expected to be addressed in September 2006.

After the application for the appointment of the arbitrator in Israel IMO filed two claims against the Company:

- One was to enforce the execution of product orders – a claim that was addressed in an abbreviated procedure and denied (e.g. it was not allowed for determination under an abbreviated procedure) in the verdict of June 7, 2005 (IMO contested the decision and the hearing is scheduled for September 2006).
- The second is a financial claim for more than one million EURO with regard to the termination of the agreement and an alleged breach of agreement by Unitronics and unfair competition. On May 11 2006 a decision was rendered rejecting IMO's claim on its merits and awarding expenses and contingency fees to the Company (of immaterial amounts). This decision is subject to IMO's right to appeal the ruling within 30 days of the date of presenting the

ruling for enforcement in France. At the date of this report the Company has not yet acted to enforce the ruling however it intends to do so in the near future.

In September 2005, Unitronics filed a claim in the Israeli court against IMO Precision Controls ltd, which is the parent company of IMO, and against its owner Sir Morris Hatter, and its manager. In this claim Unitronics demands one million Euros from the respondents for acting without good faith in its relationship with Unitronics in IMO's acquisition, having knowledge of the existing agreement between Unitronics and IMO and the termination of the agreement with Unitronics. Unitronics also claims cause of action for a claim against the respondents for their attempts to control the French market.

The claim was presented to the Manager of the parent company in Israel. In the absence of a defense statement the court ruled (against that manager) on May 10, 2006 fully in favor of Unitronics, together with expenses and contingency fees. Since no appeal was filed by the due date, the ruling against such manager became final. Nevertheless, at this stage the Company is delaying enforcement proceedings against such manager until resolution of the proceedings against IMO's parent company and the other defendants. The claim was presented in Israel at another time to the other respondents (the parent company and its above mentioned owner) but no defense statement has been provided by them.

Dispute with Samy Gharb

In January 2006, the Company filed a claim in the court in the U.S.A., by means of its legal advisors in the U.S.A., against a private individual, who complained to the Company and to several of the distributors of the Company in the U.S.A. and Europe that by marketing the products of the Company, they were infringing his registered patent. In its claim, Unitronics requests that the court declare that the respondents' registered patent is not admissible and the activities of Unitronics in no way infringe the proprietary rights of the respondent. Unitronics also claims an amount that will not be less than one million U.S. dollars in damages resulting from the actions of the respondent, mainly his above noted complaints to the distributors of Unitronics in the U.S.A. The respondent presented no defense statement in the requisite time but, rather, sent a response letter to the court which decided to regard this letter as a defense statement and despite the Company's request to rule in its favor (for lack of a defense), decided to continue deliberation. On June 2, 2006 a telephone court hearing conference was held to discuss this matter and it was decided that the file would proceed to discovery of documents and details. As of the date of this report, a detailed schedule for the next stages in these proceedings has been set through May 2007.

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 June 30, 2006 amounted to approximately NIS 98,115 thousand (about EUR 17,385 thousand) as compared to approximately NIS 97,739 thousand (about EUR 17,319 thousand) as of December 31, 2005. This increase is mainly attributable to the increase in accounts receivable (trade) and inventory items as specified below, after deducting the decrease in cash, cash equivalents and marketable securities as specified below and the decrease in deferred expenses due to the implementation of Accounting Standard No.22.

In the total of the cash, cash equivalents and marketable securities items, a decrease was registered, amounting to approximately NIS 46,426 thousand (about EUR 8,226 thousand) as of June 30, 2006 compared to approximately NIS 51,205 thousand (about EUR 9,073 thousand) as of December 31, 2005. The decrease is mainly attributable to increase in the inventory item and the decrease in the accounts payable (other) item, deducting the increase in the accounts payable (trade) item and the net profit in such period, as specified below.

In the accounts receivable (trade) item, an increase was registered from approximately NIS 10,103 thousand (about EUR 1,780 thousand) as of December 31, 2005 to approximately NIS 12,199 thousand (about EUR 2,162 thousand) as of June 30, 2006. The majority of the increase occurred during the reported period (the second quarter of 2006), and it is mainly attributable to the growth in revenues from sales, as specified below.

An increase of about 61% was registered in the inventory, from an amount of approximately NIS 9,451 thousand (about EUR 1,675 thousand) as of December 31, 2005 to approximately NIS 15,176 thousand (about EUR 2,689 thousand) as of June 30, 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 new Jazz™ PLC series, arrangements made in respect to temporary shortage and supply lead-time prolongation 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 June 30, 2006 amounted to approximately NIS 540 thousand (about EUR 96 thousand), as compared to NIS 3,279 thousand (about EUR 581 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 Company's prospectus from May 2004) to the long term liabilities convertible debentures 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 10,069 thousand (about EUR 1,784 thousand) as of June 30, 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 (series 1) payable commencing May 2007, current maturities of convertible debentures denominated in Euro and payable commencing May 2006 until September of 2008, as well as current maturities of long-term debts.

Accounts payable (trade) amounted as of June 30, 2006 to NIS 16,122 thousand (about EUR 2,857 thousand) as compared to NIS 13,146 thousand (about EUR 2,329 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. A decrease was registered in comparison to the previous quarter, from approximately NIS 19,064 thousand (about EUR 3,378 thousand), resulting from payments made to suppliers.

Accounts payable (other) amounted as of June 30, 2006 to NIS 10,241 thousand (about EUR 1,815 thousand) as compared to NIS 12,305 thousand (about EUR 2,180 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 performed in connection with logistic systems projects by the Company's systems division (in the ordinary course of Company's business).

In the aggregate long-term liabilities as of June 30, 2006 a decrease was recorded and they amounted to NIS 39,573 thousand (about EUR 7,011 thousand) as compared to NIS 50,520 thousand (about EUR 8,952 thousand) as of December 31, 2005. This change results mainly from convertible debentures (series 1) payable commencing May 2007 which are recorded - as of this periodic report - in the framework of the short term credit instead of the long-term liabilities, and from reclassification of deferred issuance expenses in connection with the convertible debentures as explained above.

The working capital of the Company amounted to approximately NIS 38,448 thousand (about EUR 6,812 thousand) as of June 30, 2006 as compared to approximately NIS 45,234 thousand (about EUR 8,015 thousand) as of December 31, 2005. This decrease results mainly from the increase in short term credit due to current maturities as explained above.

The Company's shareholders equity as of June 30, 2006 increased to approximately NIS 22,110 thousand (about EUR 3,918 thousand), as compared to approximately NIS 20,665 thousand (about EUR 3,662 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 the capital component of the convertible debentures to shareholders' equity, resulting from the implementation of Standard 22 .

2. Operating Results

Revenues

The Company's revenues in the three months period ended June 30, 2006 amounted to approximately NIS 22,927 thousand (about EUR 4,063 thousand) as compared to approximately NIS 20,740 thousand (about EUR 3,675 thousand) in the previous quarter (an increase of approximately 10.5%) and as compared to approximately NIS 20,214 thousand (about EUR 3,582 thousand) in the corresponding period of 2005 (an increase of approximately 13%) , reflecting a continued increase in revenues in the last nineteen quarters. The Company's revenues in the first half of 2006 amounted to approximately NIS 43,667 thousand (about EUR 7,738 thousand) as compared to approximately NIS 39,840 thousand (about EUR 7,059 thousand) in the first half of 2005 (an increase of approximately 9.6%)

The revenues from the Company products' activities in the three months period ended June 30, 2006 amounted to approximately NIS 13,976 thousand (about EUR 2,476 thousand) an increase of about 54% as compared to the corresponding period of 2005, and of about 9% as compared to the previous quarter. The revenues from the Company products' activities in the first half of 2006 amounted to approximately NIS 26,798 thousand (about EUR 4,749 thousand) an increase of about 54% as compared to the first half of 2005. The increase in revenues from the Company products' activities results mainly 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 June 30, 2006 amounted to approximately NIS 8,778 thousand (about EUR 1,556 thousand) a decrease of about 19% as compared to the corresponding period of 2005, and an increase of about 13% as compared to the previous quarter. The revenues from the Company systems' activities in the first half of 2006 amounted to approximately NIS 16,546 thousand (about EUR 2,932 thousand), a decrease of about 25% as compared to the first half of 2005. 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). In the reported period the Company reported the execution of a number of agreements for installation and upgrade of logistic systems.

The revenues from the Company products' activities in the three months period ended June 30, 2006 constituted approximately 61% of the total revenues of the Company in this quarter whereas the revenues from its systems' activities in the same period constituted approximately 38% 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 45% of the total revenues of the Company in such quarter whilst the revenues from systems' activities in the same period constituted approximately 54% 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 June 30, 2006 amounted to approximately NIS 8,156 thousand (about EUR 1,446 thousand) (approximately 36% of the revenues for the period) as compared to approximately NIS 6,369 thousand (about EUR 1,129 thousand) in the contemporaneous period in the year 2005 (approximately 31% of the revenues in the period). The gross profit for the first half of 2006 amounted to approximately NIS 16,093 thousand (about EUR 2,852 thousand) (approximately 37% of the revenues for the period) as compared to approximately NIS 12,334 thousand (about EUR 2,186 thousand) in the contemporaneous period in the year 2005 (approximately 31% of the revenues in the period).

It should be noted that the gross margin in the products sector activities is higher than the gross margin of the systems sector activities. The variations in the Company's rates of gross profit, result from the variations in the percentage of revenues generated from the different activities (in the ordinary course of Company's business).

Research and Development Expenses, Net

The net research and development expenses (R&D) in the three months period ended June 30, 2006 amounted to approximately NIS 2,074 thousand (about EUR 368 thousand) (approximately 9% of the revenues) as compared to approximately NIS 1,403 thousand (about EUR 249 thousand) in the corresponding period of 2005 (approximately 6.9% of the revenues). No significant change was recorded from the previous quarter. The net R&D expenses in the first half of 2006 amounted to approximately NIS 4,023 thousand (about EUR 713 thousand) (approximately 9.2% of the revenues) as compared to approximately NIS 2,726 thousand (about EUR 483 thousand) in the first half of 2005 (approximately 6.8% of the revenues).

The R&D expenses in the reported quarter 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.

Sale and Marketing Expenses

The sales and marketing expenses in the three months period ended June 30, 2006 amounted to approximately NIS 2,847 thousand (about EUR 504 thousand) (about 12.4% of revenues), in comparison to approximately NIS 2,421 thousand (about EUR 429 thousand) (about 12% of revenues) in the corresponding period of 2005. The sales and marketing expenses in the first half of 2006 amounted to approximately NIS 5,621 thousand (about EUR 996 thousand) (about 13.6% of revenues), in comparison to approximately NIS 4,342 thousand (about EUR 769 thousand) (about 11% of revenues) in the first half of 2005.

An increase was registered in sales and marketing expenses in the reported quarter compared to the corresponding quarter of 2005, but no significant change was recorded compared to the previous quarter. In previous quarters adaptations were recorded, 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.

General and Administrative Expenses

The general and administrative expenses for the three months period ended June 30, 2006 amounted to approximately NIS 1,487 thousand (about EUR 263 thousand) as compared to approximately NIS 2,085 thousand (about EUR 369 thousand) in the corresponding quarter of 2005. No significant change was recorded from the previous quarter. The general and administrative expenses for the first half of 2006 amounted to approximately NIS 3,003 thousand (about EUR 532 thousand) as compared to approximately NIS 3,570 thousand (about EUR 663 thousand) in the first half of 2005.

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

Operating Profit

An increase of about 280% was registered in the operating profit for the three months period ended June 30, 2006, and it amounted to approximately NIS 1,748 thousand (about EUR 311 thousand) as compared to an operating profit of approximately NIS 460 thousand (about EUR 82 thousand) for the corresponding period of 2005. An increase of approximately 4% was registered in this item as compared to the previous quarter. An increase of about 103% was registered in the operating profit for the first half of 2006, and it amounted to approximately NIS 3,446 thousand (about EUR 611 thousand) as compared to an operating profit of approximately NIS 1,696 thousand (about EUR 301 thousand) for the first half of 2005.

The increase in operating profit results mainly from the increase in gross profit, after deducting adaptations made in the reported period mainly in the items of R&D, sales and marketing expenses, as explained above.

Financing Expenses, Net

The financing expenses for the three months period ended June 30, 2006 amounted to approximately NIS 1,053 thousand (about EUR 187 thousand) as compared to approximately NIS 160 thousand (about EUR 28 thousand) for the corresponding quarter of 2005, and as compared to approximately NIS 1,070 thousand (about EUR 190 thousand) in the previous quarter. The financing expenses for the first half of 2006 amounted to approximately NIS 2,123 thousand (about EUR 376 thousand) as compared to approximately NIS 568 thousand (about EUR 101 thousand) for the first half of 2005. The financing expenses are mainly attributable to fluctuations of currency exchange rates as explained below, current expenses in connection with the interest on the debentures and from current depreciation of discount in connection with convertible debentures, after deducting financial income from investment activities intended to protect the Company's monetary balances, within the framework of the Company's risk management policy detailed 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 debentures (series 1). In addition, such public offering also introduced an 'interest' factor and consequently exposing the Company to interest rates related exposures.

Net Profit

In the reported quarter, the Company reports a net profit which amounts to approximately NIS 665 thousand (about EUR 118 thousand) (about 3% of the revenues), an increase of about 108% in comparison to a net profit of approximately NIS 325 thousand (about EUR 58 thousand) in the corresponding period of 2005 (about 1.6% of the revenues), and an increase of about 11% in comparison to a net profit of approximately NIS 601 thousand (about EUR 106 thousand) in the previous quarter (about 2.9% of the revenues). In the first half of 2006, the Company reports a net profit which amounts to approximately NIS 1,266 thousand (about EUR 224 thousand) (about 2.9% of the revenues), an increase of about 12% in comparison to a net profit of approximately NIS 1,139 thousand (about EUR 202 thousand) in the first half of 2005 (about 2.8% of the revenues)

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 moderate growth in net profit in the reported period.

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 4,293 thousand (about EUR 761 thousand), as compared to approx. NIS 2,320 thousand (about EUR 411 thousand) for the corresponding quarter of 2005. The Products sector's results for the first half of 2006, amounted to approx. NIS 8,600 thousand (about EUR 1,524 thousand), as compared to approx. NIS 4,895 thousand (about EUR 867 thousand) for the first half of 2005. The increase in the results of this sector in the reported period is mainly attributable 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 1,001 thousand (about EUR 178 thousand), as compared to approx. NIS 1,629 thousand (about EUR 289 thousand) for the corresponding quarter of 2005. The Systems sector results for the first half of 2006, amounted to approx. NIS 1,893 thousand (about EUR 335 thousand), as compared to approx. NIS 3,015 thousand (about EUR 534 thousand) for the first half of 2005. The decrease in the sector's results for the reported period is mainly attributable 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 performed in connection with logistic systems projects 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 June 30, 2006 amounted to approximately NIS 46,426 thousand (about EUR 8,226 thousand), as compared to approximately NIS 51,205 thousand (about EUR 9,073 thousand) as of December 31, 2005. This decrease is mainly attributable to the negative cash flow in the second quarter of 2006 as described below.

The cash flow from operating activities for the three months period ended June 30, 2006, amounted to a negative flow of approximately NIS 5,149 thousand (about EUR 912 thousand), which is mainly attributable to the decrease in the accounts payable (trade and others) items, the increase in the inventory and accounts receivable (trade) items, deducting the net profit of the Company in such period as explained above.

The cash flow from investment activities for the three months period ended June 30, 2006, amounted to a positive cash flow of approximately NIS 4,419 thousand (about EUR 783 thousand), mainly as a result of the sale of marketable securities and exercise of limited-use cash deposits in the reported quarter.

The cash flow from financing activities for the three months period ended June 30, 2006, amounted to a negative cash flow of approximately NIS 345 thousand (about EUR 61 thousand). The negative cash flow resulted mainly from repayment of convertible debentures and long term loans.

As of June 30, 2006, the aggregate credit framework available to the Company amounted to approximately NIS 12.8 million (about EUR 2.3 million), of which, on the date of the report, approximately NIS 8.8 million (about EUR 1.6 thousand) has been exploited mainly for guarantees to secure the Company's obligations in certain projects performed by its systems' division.

4. Qualitative report Re: Exposure to Market Risks and Risk Management Handling

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

Exposure to Exchange Rate Fluctuations

The Company is exposed to exchange rate fluctuations, particularly fluctuations in the rate of the US Dollar against the New Israel Shekel and the Euro, for the following reasons:

In May 2004, the Company issued convertible Debentures (Series 1) pursuant to the 2004 Prospectus. The principal and interest on these debentures are linked to the representative NIS-US Dollar exchange rate, but not less than the base rate of NIS 4.59 per US Dollar. Until either the full conversion or the full repayment of the debentures by May 2010, the Company is exposed to changes in the Shekel-Dollar exchange rate.

In February 2001, the Company issued convertible debentures denominated in Euros. In December 2003, 75% of the principal sum of these debentures was converted into shares of the Company. Until either the full conversion or the full repayment of the debentures, commencing May 2006 through September 2008, the Company is exposed to changes in the Shekel-Euro exchange rate.

The assets of the Company are exposed to exchange rate fluctuations, most importantly, deposits in various currencies (mainly in Euros and U.S. Dollars), and also including debts of customers denominated in various currencies, according to the customer, and which do not bear interest, and marketable securities linked to foreign currencies.

Current liabilities items, which are exposed to exchange rate fluctuations, include banks and others credit linked partly to foreign currencies, and debts to suppliers in foreign currencies, mainly in Euros. Long-term liabilities include long-term loans for continued financing of the purchase of rights in the Company's facilities at Airport City, 50% of which are denominated in U.S. Dollars, and 50%, are in Euros.

Most of the Company's operations are carried out in foreign currency or in New Israel Shekels linked to foreign currency. In the Products sector, most of the revenues are denominated in U.S. Dollar or linked to the U.S. Dollar exchange rate, with the exception of revenues generated from sales in Europe, which are mostly denominated in Euros. In the Systems sector, most of the revenues are denominated in Euros or linked to the Euro exchange rate.

Raw materials required for the production of the Company's products mainly include various electronic and mechanical components, the prices of which are mostly denominated in foreign currency – mainly the U.S Dollar and Euro.

Exposure to Israeli Consumer Price Index Fluctuations

As detailed in section 3.1 above, after the reported period the Company issued pursuing to the 2006 Prospectus, debentures (series 2). These debentures are linked to the Israeli Consumer Price Index, and accordingly the Company shall report as to the exposures resulting thereform as well as to the policy to be adopted in connection with the risk management of same, in its coming reports.

Risks Related to Marketable Securities

Part of the Company's financial means is invested in marketable securities. Unusual developments in the capital markets in Israel and around the world are liable to cause fluctuations in the rates of marketable securities on the stock exchange, and, consequently, could affect the Company's financial income/expenses.

Interest Related Risks

The Company has various loans relating to the acquisition of its rights in the Company's facilities in Airport City, convertible debentures issued by the Company pursuant to the 2004 Prospectus, and other credit facilities bearing various interest rates, and exposed to potential changes in the prime and/or LIBOR interest rates

Company's Policy for Managing Market Risks

The policy of the Company is to try to reduce, for each contract, the exposure to changes in the exchange rate by adjusting the income currency to the main expenses currency. In the Systems sector, the Company usually links the payment terms (periods / foreign currencies) of the different customers to the terms of the payment to the subcontractors.

The Company's investments allocation policy derives from the Company's intention to reduce its exposure to US Dollar obligations (mainly the principal and interest payment of the US Dollar linked Debentures (Series 1)).

To such end, the Company reviewed, in consultation with professional entities in the capital market shortly after the 2004 Prospectus (and receiving the proceeds of such offering), a number of investment alternatives, including: US Dollar linked deposits, derivatives and other financial tools and NIS linked investment programs.

The Company estimates that, due to its undertakings pursuant to the Debentures (Series 1) issued pursuant to the 2004 Prospectus being US Dollar exchange rate linked, and not less than a base rate of NIS 4.59 per Dollar, using US Dollar linked deposits alone cannot secure the Company's obligations according to the Debentures (Series 1), mainly in the event of US Dollar exchange rates decreasing below the aforementioned base rate.

Using derivatives and other financial tools to secure changes in the US Dollar exchange rate in order to comply with the Company's undertakings according to the Debentures (Series 1), was found by the Company as un-beneficial due to the extent of expenses involved therein.

Considering the aforementioned and the fact that most of the Company's revenues are in foreign currency, the Company chose to allocate approximately 60% of its investments in US Dollar linked investment programs (and thus partially protect its exposure to an increase in the US Dollar rate) and approximately 40% of its investments, in NIS programs, which at the time produced a higher yield, and thus partially protect from a decrease in the US Dollar rate below the base rate.

The Company's investment committee (established after the 2004 Prospectus) continues to currently examine the allocation method, and as of this date, no significant change in the allocation method since the 2004 Prospectus has occurred.

Monetary Assets and Liabilities Classified by Linkage Basis

	June 30, 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	1,983	-	11,488	1,316	-	-	14,787
Marketable securities	3,177	16,473	-	11,989	-	-	31,639
Accounts receivable - Trade	8,193	-	2,163	1,828	15	-	12,199
Accounts receivable - Other	141	597	-	-	-	322	1,060
Inventory	-	-	-	-	-	15,176	15,176
Inventory - work in progress	-	-	-	-	-	19	19
Long-term deposits	-	-	-	-	-	273	273
Property and equipment	-	-	-	-	-	22,422	22,422
Other assets	-	-	-	-	-	540	540
Total assets	13,494	17,070	13,651	15,133	15	38,752	98,115
Liabilities							
Credit from banks and others	1	148	1,780	8,140	-	-	10,069
Accounts payable - Trade	10,962	-	4,652	288	220	-	16,122
Accounts payable - Other	9,420	-	-	251	-	570	10,241
Long-term debt	-	298	5,467	5,086	-	-	10,851
Convertible debentures	-	-	2,880	23,694	-	-	26,574
Accrued severance pay, net	1,813	-	-	-	-	-	1,813
Deferred taxes	-	-	-	-	-	335	335
Total liabilities	22,196	446	14,779	37,459	220	905	76,005
Net Balance	(8,702)	16,624	(1,128)	(22,326)	(205)	37,847	22,110

Tzvi Livne
Director

Haim Shani
Chairman & CEO

Date: August 30th, 2006

UNITRONICS (1989) (R"G) LTD.

Financial Statements
As of June 30,2006

(Unaudited)

Unitronics (1989) (R"G) Ltd.

Financial Statements

As of June 30, 2006

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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 June 30, 2006, and the related interim consolidated statements of operations, changes in shareholders' equity and cash flows for the six and 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 at June 30, 2006 represent approximately 3% of the total assets included in the Consolidated Interim Balance Sheet and whose income for the six month period ended June 30, 2006 represents approximately 13% 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 accountants, 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)

August 30, 2006

Unitronics (1989) (R"G) Ltd. **Consolidated Balance Sheets**	***June 30, 2006***	***June 30, 2006***	***June 30, 2005***	***December 31, 2005***
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro (1)	**Reported NIS**		
Cash and cash equivalents	2,620	14,787	15,371	15,542
Restricted cash	-	-	-	2,300
Marketable securities	5,606	31,639	31,888	33,363
Accounts receivable -				
Trade	2,162	12,199	5,762	10,103
Other	188	1,060	1,195	1,029
Inventory	2,689	15,176	7,549	9,451
Inventory - work in progress	3	19	1,168	-
Current assets	*13,268*	*74,880*	*62,933*	*71,788*
Long-term deposits	*48*	*273*	*147*	*201*
Property and equipment	*3,973*	*22,422*	*22,405*	*22,471*
Other assets and deferred expenses, net	*96*	*540*	*3,774*	*3,279*
Total assets	***17,385***	***98,115***	***89,259***	***97,739***
Credit from banks and others	1,784	10,069	1,112	1,103
Accounts payable -				
Trade	2,857	16,122	10,105	13,146
Other	1,815	10,241	5,693	12,305
Current liabilities	*6,456*	*36,432*	*16,910*	*26,554*
Long-term debt from banks and others	1,923	10,851	10,804	11,411
Convertible bonds	4,708	26,574	38,194	37,512
Accrued severance pay, net	321	1,813	1,391	1,346
Deferred taxes	59	335	206	251
Long-term liabilities	*7,011*	*39,573*	*50,595*	*50,520*
Shareholders' equity	*3,918*	*22,110*	*21,754*	*20,665*
Total liabilities and shareholders' equity	***17,385***	***98,115***	***89,259***	***97,739***

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

Tzvi Livne
Director

Yair Itscovich
Chief Financial Officer

Approved: August 30, 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 six months period ended June 30,*	*For the six months period ended June 30,*		*For the three months period ended June 30,*	*For the three months period ended June 30,*		*For the year ended December 31,*
	2006	**2006**	**2005**	**2006**	**2006**	**2005**	**2005**
	(unaudited)	**(unaudited)**		**(unaudited)**	**(unaudited)**		**(audited)**
				(in thousands)			
	Convenience translation into Euro (1)	**Reported NIS**		**Convenience translation into Euro (1)**	**Reported NIS**		
Revenues	7,738	43,667	39,840	4,063	22,927	20,214	80,774
Cost of revenues	4,886	27,574	27,506 (*)	2,617	14,771	13,845 (*)	55,888
Gross profit	*2,852*	*16,093*	*12,334*	*1,446*	*8,156*	*6,369*	*24,886*
Research & development expenses, net	713	4,023	2,726 (*)	368	2,074	1,403 (*)	5,753
Selling & marketing expenses	996	5,621	4,342 (*)	504	2,847	2,421 (*)	9,659
General & administrative expenses	532	3,003	3,570 (*)	263	1,487	2,085 (*)	6,302
Operating profit	*611*	*3,446*	*1,696*	*311*	*1,748*	*460*	*3,172*
Financing expenses, net	376	2,123	568	187	1,053	160	2,511
Operating profit after financing expenses, net	*235*	*1,323*	*1,128*	*124*	*695*	*300*	*661*
Other income, net	5	33	-	5	33	-	-
Profit before tax benefits (taxes on income)	*240*	*1,356*	*1,128*	*129*	*728*	*300*	*661*
Tax benefits (taxes on income)	(16)	(90)	11	(11)	(63)	25	(37)
Profit for the period	*224*	*1,266*	*1,139*	*118*	*665*	*325*	*624*
Profit per 1 ordinary share NIS 0.02 par value	0.019	0.110	0.098 (**)	0.010	*0.058*	*0.028* (**)	*0.054*

(*) Reclassified.
(**) Restated, see Note 2E5.
(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	Capital reserves	Share premium	Receipts on account of warrants and conversion option	Company shares held by the company	Accumulated loss	Total
			Reported NIS in thousands				
Balance at January 1, 2005 (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)
Split of conversion option from convertible bonds, net	-	-	-	235	-	-	235
Benefit arising from warrants granted	-	11	-	-	-	-	11
Profit for the period	-	-	-	-	-	1,266	1,266
Balance at June 30, 2006 (unaudited)	352	11	48,442	676	(641)	(26,965)	22,110
Balance at January 1, 2005 (audited)	352	-	48,442	676	-	(28,855)	20,615
Profit for the period	-	-	-	-	-	1,139	1,139
Balance at June 30, 2005 (unaudited)	352	-	48,442	676	-	(27,716)	21,754

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

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

	Share capital	Capital reserves	Share premium	Receipts on account of warrants and conversion option	Company shares held by the company	Accumulated loss	Total
Balance at April 1, 2006 (unaudited)	352	-	48,422	911	(641)	(27,630)	21,434
Benefit arising from warrants granted	-	11	-	-	-	-	11
Profit for the period	-	-	-	-	-	665	665
Balance at June 30, 2006 (unaudited)	352	11	48,442	911	(641)	(26,965)	22,110
Balance at April 1, 2005 (unaudited)	352	-	48,422	676	-	(28,041)	21,429
Profit for the period	-	-	-	-	-	325	325
Balance at June 30, 2005 (unaudited)	352	-	48,442	676	-	(27,716)	21,754

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

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

	Share capital	Capital reserves	Share premium	Receipts on account of warrants and conversion options	Company shares held by the company	Accumulated Loss	total
	Convenience translation into Euro, in thousands (unaudited) (1)						
Balance at January 1, 2006	62	-	8,584	119	(101)	(5,002)	3,662
Purchase of company shares by the company	-	-	-	-	(12)	-	(12)
Split of conversion option from convertible bonds, net	-	-	-	42	-	-	42
Benefit arising from warrants granted	-	2	-	-	-	-	2
Profit for the period	-	-	-	-	-	224	224
Balance at June 30, 2006	62	2	8,584	161	(113)	(4,778)	3,918
	Convenience translation into Euro, in thousands (unaudited) (1)						
Balance at April 1, 2006	62	-	8,584	161	(113)	(4,896)	3,798
Benefit arising from warrants granted	-	2	-	-	-	-	2
Profit for the period	-	-	-	-	-	118	118
Balance at June 30, 2006	62	2	8,584	161	(113)	(4,778)	3,918

(1) See note 2D.

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

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

	For the six months period ended June 30,	*For the six months period ended June 30,*		*For the three months period ended June 30,*	*For the three months period ended June 30,*		*For the year ended December 31,*
	2006	**2006**	**2005**	**2006**	**2006**	**2005**	**2005**
	(unaudited)	**(unaudited)**		**(unaudited)**	**(unaudited)**		**(audited)**
				(in thousands)			
	Convenience translation into Euro (1)	**Reported NIS**		**Convenience translation into Euro (1)**	**Reported NIS**		
Profit for the period	224	1,266	1,139	118	665	325	624
Adjustments necessary to show the cash flows from operations (Appendix A)	(922)	(5,202)	(2,543)	(1,030)	(5,814)	(2,836)	2,453
Cash flows provided by (used in) operating activities	*(698)*	*(3,936)*	*(1,404)*	*(912)*	*(5,149)*	*(2,511)*	*3,077*
Sale of (investment in) marketable securities, net	372	2,102	(3,008)	437	2,466	(2,099)	(2,802)
Investment in restricted cash, net	408	2,300	-	408	2,300	-	(2,300)
Purchase of property and equipment	(111)	(626)	(492)	(41)	(234)	(83)	(1,637)
Sale of equipment	6	33	-	6	33	-	-
Investment in long-term deposits	(13)	(74)	(25)	(14)	(74)	-	(94)
Repayment of long-term deposits	-	2	11	-	-	9	26
Investment in other assets and deferred expenses	(19)	(110)	(67)	(13)	(72)	(33)	(110)
Cash flows provided by (used in) investing activities	*643*	*3,627*	*(3,581)*	*783*	*4,419*	*(2,206)*	*(6,917)*
Loans received from bank	-	-	-	-	-	-	11,063
Repayment of long-term loans from banks	-	-	(578)	-	-	(176)	(11,506)
Repayment of loans from others	(12)	(70)	-	(6)	(35)	-	(536)
Short-term credit from banks, net	-	-	(13)	-	(1)	-	(12)
Repayment of convertible bonds	(55)	(309)	-	(55)	(309)	-	-
Purchase of company shares by the company	(12)	(67)	-	-	-	-	(574)
Cash used in financing activities	*(79)*	*(446)*	*(591)*	*(61)*	*(345)*	*(176)*	*(1,565)*
Decrease in cash and cash equivalents	*(134)*	*(755)*	*(5,576)*	*(190)*	*(1,075)*	*(4,893)*	*(5,405)*
Cash and cash equivalents at beginning of period	2,754	15,542	20,947	2,810	15,862	20,264	*20,947*
Cash and cash equivalents at end of period	*2,620*	*14,787*	*15,371*	*2,620*	*14,787*	*15,371*	*15,542*

(1) See note 2D.

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

	For the six months period ended June 30,	*For the six months period ended June 30,*		*For the three months period ended June 30,*	*For the three months period ended June 30,*		*For the year ended December 31,*
	2006	**2006**	**2005**	**2006**	**2006**	**2005**	**2005**
	(unaudited)	**(unaudited)**		**(unaudited)**	**(unaudited)**		**(audited)**
				(in thousands)			
	Convenience translation into Euro (1)	**Reported NIS**		**Convenience translation into Euro (1)**	**Reported NIS**		
Appendix A - Adjustments necessary to show the cash flows from operations							
Depreciation and amortization	261	1,472	1,462	124	700	729	3,004
Loss (profit) from marketable securities, net	(67)	(378)	(744)	51	288	(478)	(2,425)
Benefit arising from warrants granted	2	11	-	2	11	-	-
Capital gain	(6)	(33)	-	(6)	(33)	-	-
Increase in accrued severance pay, net	83	467	251	39	222	192	206
Deferred taxes, net	15	85	(22)	11	64	(27)	35
Long-term debt and convertible bonds exchange rate differences	23	133	18	(142)	(799)	153	97
Decrease (increase) in accounts receivable - trade	(371)	(2,096)	1,100	(255)	(1,439)	(1,041)	(3,241)
Decrease (increase) in accounts receivable - other	(5)	(31)	(292)	177	998	(305)	(126)
Decrease (increase) in inventory	(1,015)	(5,725)	2,236	(241)	(1,362)	1,127	334
Decrease (increase) in inventory - work in progress	(3)	(19)	(725)	(3)	(19)	430	443
Increase (decrease) in accounts payable - trade	527	2,976	(3,625)	(521)	(2,942)	(1,107)	(284)
Increase (decrease) in accounts payable - other	(366)	(2,064)	(2,202)	(266)	(1,503)	(2,509)	4,410
	(922)	*(5,202)*	*(2,543)*	*(1,030)*	*(5,814)*	*(2,836)*	*2,453*

(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 June 30, 2006, and for the periods of six and 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 U.S. dollar**	**Exchange rate of One Euro**
	Points (*)	**NIS**	**NIS**
June 30, 2006	187.92	4.440	5.6435
June 30, 2005	181.63	4.574	5.5270
December 31, 2005	185.05	4.603	5.4465
Change during the period	**%**	**%**	**%**
June 2006 (six months)	1.55	(3.54)	3.62
June 2005 (six months)	0.49	6.17	(5.95)
June 2006 (three months)	0.97	(4.82)	(2.38)
June 2005 (three months)	1.10	4.88	(2.16)
December 2005 (12 months)	2.38	6.85	(7.32)

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

Note 2 - Significant Accounting Policies (cont')

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 June 30, 2006 (EURO 1 = NIS 5.6435).

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

E. 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.

Note 2 - Significant Accounting Policies (cont')

E. Initial application of new Accounting Standards (cont')

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.

   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 4.88 and NIS 1.39 for the six and three month periods ended June 30, 2005, respectively and NIS 2.68 for the year ended December 31, 2005.

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

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

In July 2006, the Israel Accounting Standards Board issued Israel Accounting Standard No. 29 – "Adoption of International Reporting Financial Standards (IFRS)" ("the Standard"). The Standard provides that companies, which are subject to the Securities Law, 1968 and are required to report – pursuant to regulations issued thereunder – in accordance with said law, shall draw up their financial statements under International Financial Reporting Standards (IFRS) with effect from reporting periods commencing on January 1, 2008. Pursuant to the provisions of the Standard, such companies and other companies may elect early adoption of the Standard, and prepare their financial statements under IFRS, commencing with the financial statements that are published subsequent to July 31, 2006.
The standard prescribes that companies, which do not draw up their financial statements under IFRS and are required or elect, as stated above, to prepare their financial statements for the first time under IFRS, shall apply the provisions specified in International Financial Reporting Standard No. 1 ("IFRS 1")- "First-Time Adoption of International Financial Reporting Standards" in making the transition.
The company is currently assessing the implications of the transition to reporting under IFRS on its financial statements.

Note 3 - Business segments

A. Revenues

Unitronics (1989) (R"G) Ltd. Consolidated	***For the six months period ended June 30,***	***For the six months period ended June 30,***		***For the three months period ended June 30,***	***For the three months period ended June 30,***		***For the year ended December 31,***
	2006	**2006**	**2005**	**2006**	**2006**	**2005**	**2005**
	(unaudited)	**(unaudited)**		**(unaudited)**	**(unaudited)**		**(audited)**
				(in thousands)			
	Convenience translation into Euro	**Reported NIS**		**Convenience translation into Euro**	**Reported NIS**		
Products	4,749	26,798	17,349	2,476	13,976	9,088	37,201
System integration projects	2,932	16,546	22,148	1,556	8,778	10,946	42,862
Other	57	323	343	31	173	180	711
	7,738	*43,667*	*39,840*	*4,063*	*22,927*	*20,214*	*80,744*

B. Segment results

Products	1,524	8,600	4,895	761	4,293	2,320	10,498
System integration projects	335	1,893	3,015	178	1,001	1,629	4,591
Other	9	52	32	6	36	7	73
Unallocated corporate expenses	(1,257)	(7,099)	(6,246)	(633)	(3,571)	(3,496)	(11,990)
Operating profit	*611*	*3,446*	*1,696*	*312*	*1,759*	*460*	*3,172*

Note 4 - Events in the reported period

On May 9, 2006 the annual general meeting of the Company's shareholders (the "**AGM**") has approved the indemnification and exemption of the Company's Office Holders as may be appointed from time to time, and/or those serving in Other Companies (excluding Office Holders which are Controlling Shareholders of the Company) pursuant to the provisions of the Indemnity Letter and the granting of Indemnity Letters to such Office Holders.
In addition, the AGM has approved the indemnification and exemption of Mr. Haim Shani and Mrs. Bareket Shani, the Controlling Shareholder in the Company and his wife, 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. These options exercisable at respective price of EURO 1 from the day of grant till May, 2009. The benefit component from the options granted at the amount of NIS 11 thousands was included in the statements of operations according to Accounting Standard No. 24.

Note 5 - Subsequent Events

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

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

The gross amount raised amounted to approximately NIS 32 million.