Unitronics (1989)(R"G) LTD.

Quarterly Report as of September 30, 2005

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

Note: The Company's accounts are administered in NIS. All figures for all periods specified in this report were translated for convenience at the same exchange rate of the EUR against the NIS (New Israeli Shekel) as of September 30, 2005 (1 EUR = 5.5275 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, and sale of industrial automation products, mainly programmable logic controllers (hereinafter: "**controllers**" or "**PLCs**"). Controllers are computer based electronic products (hardware and software) which serve for control and supervision of machines performing automatic tasks such as industrial manufacturing, storage, retrieval and logistics systems and machines. The Company is also engaged, through its Systems Department, in planning service, establishment service, and maintenance service in the framework of projects for mechanization, computerization and integration of computerized production and/or logistic systems, mainly automatic warehouses.

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

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

Since May 2004, the shares of the Company are traded on the Tel Aviv stock exchange (further to a prospectus published in Israel in May 2004 – hereafter the "Israeli prospectus"), 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 Legal Procedures

As previously reported, Unitronics encountered a conflict with IMO Jeambrun Automation SAS (hereafter "IMO") in France that acquired in August 2004 the business activities of Unitronics' exclusive distributor in France, following its insolvency declaration.

In April 2005, Unitronics appealed to the Israeli court to appoint an arbitrator in order to check IMO's claims regarding the termination of the agreement between the companies following a six months advanced termination notice. In addition the Company appealed for and was granted permission for service of process outside Israel's territory. IMO appealed to cancel such permission for service and this matter is expected to be addressed by the court in the coming months. Since no response has been received as of yet to the essence of Unitronics' claims (which is expected to be received soon), in light of the complexity of the procedure and since no witnesses have been questioned, the merits of this procedure can not be currently estimated.

Following the appeal in Israel to appoint an arbitrator, IMO filed in France two lawsuits against the Company:

- A first lawsuit requesting to enforce the delivery of products – a lawsuit that was rejected by the French court pursuant to a rapid procedure in a sentence from June 7th 2005 (IMO appealed on this matter, and a date for a court session for such matter has not been set as of yet).
- The second lawsuit is a monetary claim in excess of one million Euro, claiming termination of the association and breach of the agreement by Unitronics and unfair competition. No court deliberations have as yet commenced with respect to this lawsuit. Due to the complexity of this matter, the merits of such claim can not be estimated as of yet.

In September 2005, Unitronics filed a lawsuit in the Israeli court against IMO Precision Controls Ltd., the shareholder company of IMO, as well as against its owner Sir Maurice Hatter and its manager. This lawsuit includes a monetary claim of one million Euro, claiming actions of bad faith regarding the acquisition of IMO in respect of the relations with Unitronics, knowledge of the existence of an agreement between IMO and Unitronics, and the termination of the agreement between the companies. In addition Unitronics claims against the defendants in respect of the attempts to take over the French market. The lawsuit was not yet provided to the defendants and no statement of defense has been submitted. The merits of such claim can not be estimated as of yet.

3.2 Government Benefits

Approved Enterprise

The Company reported within the Israeli Prospectus, that in January 2003, it received approval for an investment plan in the alternative investments course, in accordance with the Encouragement of Investments Law. In accordance with the approval, and subject to the fulfillment of the terms set out in the approval (in brief, financing of at least 30% of the investments in fixed assets shall be carried out by additional paid up share capital, compliance with the intellectual property laws and the submission of reports to the Investments Center and to the Tax Assessment Officer in accordance with the law) the Company shall be entitled to tax benefits in accordance with clause 51 of the Encouragement of Capital Investments Law, 5719-1959 (for details of the plan and its tax benefits aspects, see clauses 6.11.1 and 6.14.1 of the Israeli prospectus).

In August 2005, the Company filed a final execution report for such plan. According to this report, the requested starting year (the base year for the benefits period) is the year 2004, and the Company reported completion till the end of 2004 of essentially all of the investment plan (about 99%) amounting to approximately NIS 1,257 thousand (about EUR 227 thousand) only in production equipment. The Company also reported that during the year 2004 its revenues increased by approximately NIS 20 million (about EUR 3.6 million) as compared to the year 2003 (growth rate of about 38% according to the VAT reports). In September 2005, following an inspection conducted at the Company, the Company received a statement from the engineering department approving the execution of the investments during the period. Up to the publication of this quarterly report, the Company did not receive a final statement approving that it complied with the plans' terms and conditions.

3.3 Company's position regarding internal auditing of the Institute of CPAs

On August 11th, 2005 the Company's board of directors reviewed the decision of the institute of Certified Public Accountants in Israel to establish a "member's auditing institute" that will control and audit the work of CPA offices, and reviewed also the possibility that the Company may be requested to cooperate with such institute in the framework of a representative sample and to reveal documents related to the auditing procedures performed, which are in the possession of the Company's CPA.

Although no request to provide documents has yet been received by the Company from the "member's auditing institute", and in light of the importance of such matter, the board of directors decided that should the Company be requested by the "member's auditing institute" to participate in such review and reveal documents which are in the possession of the Company's CPA related to the Company's accounting audit, the Company will comply with such request, subject to compliance with non disclosure obligations and protection of the Company's interests in respect with said documents.

3.4 Expansion of the Company's leased area within "Unitronics Building"

Subsequent to the Company's business activity expansion within the ordinary course of its business, and following personnel recruitment and expansion of its activities (especially in the fields of research & development, marketing, and the Company's systems department), the Company encountered an actual need to expand the area from which the Company performs its activities. Therefore, in August 2005, the audit committee and the board of directors of the Company, resolved to approve the modification of the leasing agreement from 2.8.04 between the Company and a company controlled by Mr. Haim Shani, the controlling shareholder of the Company and its chairman of the board and CEO. According to such modification, as of 1.8.05 the Company will lease from the leasing company additional 436 square meters (in addition to the 196 square meters leased by the Company according to the original agreement) within "Unitronics Building" in Airport City, this in addition to 1,600 square meters within "Unitronics Building" for which the Company holds direct rights (for more information about the Company facilities see paragraph 1.19.1 of the Company's annual report of 2004).

For more information about the terms of the modification of the leasing agreement and the extract of the board of directors and audit committee reasons for approving the transaction, see immediate report published by the Company August 14, 2005 (numbered 2005-01-038689).

3.5 Self Purchase of Company Shares (creation of dormant shares)

As of August 2005 the Company purchases from time to time ordinary shares of the Company, within normal trading at the Tel-Aviv stock exchange. As of November 17, 2005, the Company holds 64,747 such purchased shares (out of 11,676,546 ordinary shares currently in the Company's issued share capital). These purchases amounted to a total of about NIS 339 thousand (approximately EUR 61.3 thousand), purchased at share prices between NIS 4.5 (about EUR 0.81) and NIS 5.5 (about EUR 1.0). As long as these shares are held by the Company they are considered "dormant shares" as defined by the Israeli Companies law - 1999. For additional information regarding such purchasing actions, refer to immediate reports published by the Company from time to time subsequent to the purchasing, starting August 18, 2005.

CHAPTER B – BOARD OF DIRECTORS REPORT

In this chapter the term "Company" refers to Unitronics (1989)(R"G) Ltd. and its consolidated subsidiaries.

1. The Financial Status

Assets

The total assets according to the consolidated balance sheet of the Company as of September 30, 2005 amounted to approximately NIS 92,149 thousand (about EUR 16,671 thousand) as compared to approximately NIS 93,986 thousand (about EUR 17,003 thousand) as of December 31, 2004. This change is mainly attributable to the decrease in the cash and cash equivalents items, and the inventory items, as specified below.

In the total of the cash, cash equivalents and marketable securities items, a decrease was registered, amounting to approximately NIS 46,944 thousand (about EUR 8,492 thousand) as of September 30, 2005 compared to approximately NIS 49,083 thousand (about EUR 8,880 thousand) as of December 31, 2004. This change is mainly attributable to a negative cash flow from operating activities resulting mainly from the decrease in accounts payable (trade) items and the increase in the accounts receivable (trade) items, after deducting the decrease in the inventory item, as specified below.

In the accounts receivable (trade) item, an increase was registered from approximately NIS 6,862 thousand (about EUR 1,241 thousand) as of December 31, 2004 to approximately NIS 9,736 thousand (about EUR 1,761 thousand) as of September 30, 2005. This increase is mainly attributable to the increase in the accounts receivable from the Company's systems' activities resulting from performance of existing and new projects from the beginning of year 2005, and in parallel to the increase in the accounts receivable from the Company's products' activities in this period.

A decrease of about 13% was registered in the inventory item, from an amount of approximately NIS 9,785 thousand (about EUR 1,770 thousand) as of December 31, 2004 to approximately NIS 8,478 thousand (about EUR 1,534 thousand) as of September 30, 2005. The decrease is mainly attributable to a continued improvement in the Company's procurement procedures and production planning, while adapting inventory levels to the increase in revenues, according to the Company's policy.

Other assets as of September 30, 2005 amounted to approximately NIS 3,557 thousand (about EUR 644 thousand), as compared to NIS 4,157 thousand (about EUR 752 thousand) as of December 31, 2004, attributable mainly to deferred issuance expenses in connection with the convertible debentures issued to the public in accordance with the Israeli prospectus.

Liabilities

The aggregate short term credit amounted to approximately NIS 7,144 thousand (about EUR 1,292 thousand) as of September 30, 2005, as compared to NIS 1,127 thousand (about EUR 204 thousand) as December 31, 2004, and is mainly attributable to current maturities of long-term debts. As described in the Israeli Prospectus, a credit facility has been made available for the Company, for financing the acquisition of rights in "Unitronics Building" facility. According to the terms of the long term loans provided within this credit framework, the maturity of some loans – which principal amounts on the date of this report to approximately NIS 5.8 million (about EUR 1.05 million) – is in July 30th 2006. Therefore, such amount is considered as of this report as short term credit (instead of accounting for same as a long term liabilities item).

Accounts payable (trade) amounted as of September 30, 2005 to NIS 10,348 thousand (about EUR 1,872 thousand) as compared to NIS 13,730 thousand (about EUR 2,484 thousand) as of December 31, 2004. The decrease results mainly from the decrease in the accounts payable in connection with the Company's systems' activities, resulting from performance of existing and new projects from the beginning of year 2005.

No significant change was registered in the accounts payable (other) and it amounted as of September 30, 2005 to NIS 7,880 thousand (about EUR 1,426 thousand) as compared to NIS 7,895 thousand (about EUR 1,428 thousand) as of December 31, 2004.

The long-term liabilities item amounted to NIS 44,593 thousand (about EUR 8,067 thousand) as of September 30, 2005 as compared to NIS 50,619 thousand (about EUR 9,158 thousand) as of December 31, 2004. This change results mainly from the above explained principal amount of a credit facility financing the acquisition of rights in “Unitronics Building”, which is considered as of this report aggregate short term credit instead of being included in such item.

The working capital of the Company amounted to approximately NIS 40,644 thousand (about EUR 7,353 thousand) as of September 30, 2005 as compared to approximately NIS 44,324 thousand (about EUR 8,019 thousand) as of December 31, 2004. This decrease results mainly from the above explained increase in the aggregate short term credit, deducting the net profit of the Company in the reported period, as described below.

The Company's shareholders equity as of September 30, 2005 increased to approximately NIS 22,184 thousand (about EUR 4,014 thousand), as compared to approximately NIS 20,615 thousand (about EUR 3,730 thousand) as of December 31, 2004. 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 above and below.

2. **Operating Results**

Revenues

The Company's revenues for the first nine months of year 2005 amounted to approximately NIS 60,228 thousand (about EUR 10,896 thousand) as compared to approximately NIS 44,025 thousand (about EUR 7,965 thousand) in the corresponding period of 2004 (an increase of approximately 37%). The Company's revenues for the three months period ended September 30, 2005 amounted to approximately NIS 20,388 thousand (about EUR 3,688 thousand) as compared to approximately NIS 15,941 thousand (about EUR 2,884 thousand) in the corresponding period of 2004 (an increase of approximately 28%). The continued increase in revenues in the last sixteen quarters results mainly, according to Company, from the following factors:

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

The revenues from the Company products' activities in the three months period ended September 30, 2005 amounted to approximately NIS 9,603 thousand (about EUR 1,737 thousand) and constituted approximately 47% of the total revenues of the Company in this quarter whereas the revenues from its systems' activities in the same period amounted to approximately NIS 10,574 thousand (about EUR 1,913 thousand) and constituted approximately 52% of the total revenues. In the contemporaneous quarter in the year 2004, the revenues from products' activities amounted to approximately NIS 7,877 thousand (about EUR 1,425 thousand) and constituted 49% of the total revenues of the Company in such quarter whilst the revenues from systems' activities in the same period amounted to approximately NIS 7,813 thousand (about EUR 1,413 thousand) and constituted approximately 49% of the total revenues. In the first nine months of year 2005 revenues from the Company products' activities constituted approximately 45% of the total revenues of the Company whereas the revenues from its systems' activities in the same period constituted approximately 54% of the total revenues, as compared to the same period in 2004, in which the revenues from the products' activities constituted approximately 50% of the total revenues of the Company whereas the revenues from its systems' activities in the same period constituted approximately 49% of the total revenues. In all above mentioned periods, about 1% of the Company's revenues was generated by other activities. In the annual aggregate for the year 2004, the revenues from the Company's products' activities constituted approximately 48.4% of the revenues whereas the revenues from the Company's systems' activities constituted approximately 50.6% of the revenues.

The fluctuations between the quarters results mainly from the pace of the actual progress of work of logistic systems projects preformed by the Company's systems division (in the ordinary course of Company's business). In recent quarters an increase was registered in the Company's revenues from its systems' activities as compared to its products activities, however the Company does not consider it as a trend and believes that continued growth in its system's activities depends on a relatively small number of large orders and on the actual performance of existing and new projects[1].

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

Gross Profit

The gross profit for the first nine months of 2005 amounted to approximately NIS 18,816 thousand (about EUR 3,404 thousand) (approximately 31.2% of the revenues for the period) as compared to approximately NIS 15,696 thousand (about EUR 2,840 thousand) in the contemporaneous period in the year 2004 (approximately 35.7% of the revenues in the period). The gross profit for the three months period ended September 30, 2005 amounted to approximately NIS 6,335 thousand (about EUR 1,146 thousand) (approximately 31.1% of the revenues for the period) as compared to approximately NIS 5,489 thousand (about EUR 993 thousand) in the contemporaneous period in the year 2004 (approximately 34.4% of the revenues in the period).

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

Research and Development Expenses (Net)

The net research and development expenses (R&D) in the first nine months of 2005 amounted to approximately NIS 4,026 thousand (about EUR 788 thousand) (approximately 6.7% of the revenues) as compared to approximately NIS 3,068 thousand (about EUR 555 thousand) in the corresponding period of 2004 (approximately 7.0% of the revenues). The net research and development expenses (R&D) in the three months period ended September 30, 2005 amounted to approximately NIS 1,372 thousand (about EUR 248 thousand) (approximately 6.7% of the revenues) as compared to approximately NIS 1,052 thousand (about EUR 190 thousand) in the corresponding quarter of 2004 (approximately 6.6% of the revenues).

The R&D expenses in the reported period reflect a continued development activity of new technologies and new products, required to support the Company's continued growth. During and after the reported period, the Company continued recruiting additional personnel for the development teams, and therefore expects an increase in such expenses in the coming quarters[2].

Sale and Marketing Expenses

The sales and marketing expenses in the first nine months of 2005 amounted to approximately NIS 6,788 thousand (about EUR 1,228 thousand) (about 11.3% of revenues), in comparison to approximately NIS 5,509 thousand (about EUR 997 thousand) (about 12.5% of revenues) in the corresponding period of 2004. The sales and marketing expenses in the three months period ended September 30, 2005 amounted to approximately NIS 2,513 thousand (about EUR 455 thousand) (about 12.3% of revenues), in comparison to approximately NIS 1,924 thousand (about EUR 348 thousand) (about 12.1% of revenues) in the corresponding quarter of 2004.

The nominal increase registered in such item in the reported period is mainly attributable to adaptations 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.

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competitors, and the other risk factors enumerated in section 1.39 of the Company's annual report for the year 2004.

[2] The information with regard to the expected growth in the R&D Expenses item is forward-looking information. The main data constituting the basis for this information are the Company's development plans, the actual stages of development on the date of the report of the technology being developed at the Company and the need for continued material investments in R&D expenses, to implement the Company's plans. The main factors likely to prevent this information from being implemented are changes in the Company's development plans arising from reasons beyond the Company's control (such as market requirements and consumer preferences, competitors' developments, prices of raw materials and services required by the Company), the lack of budget to finance the expenses required for continued development in general or in the scopes required for the Company, and possible technological difficulties with the completion of the development stages pursuant to these plans.

General and Administrative Expenses

The general and administrative expenses for the first nine months of 2005 amounted to approximately NIS 5,402 thousand (about EUR 977 thousand) as compared to approximately NIS 3,354 thousand (about EUR 607 thousand) in the corresponding quarter of 2004. The general and administrative expenses for the three months period ended September 30, 2005 amounted to approximately NIS 1,546 thousand (about EUR 280 thousand) as compared to approximately NIS 1,215 thousand (about EUR 220 thousand) in the corresponding quarter of 2004.

The general and administrative expenses from the beginning of the year reflect adaptations required for supporting the continued growth, and include expenses related mainly to professional consulting and legal services, the costs entailed in the fact that the Company's securities are listed for trading also on the Tel Aviv Stock Exchange, as well as non-recurring expenses due to office relocation of the Company's US subsidiary and a special bonus the Company's CEO in the previous quarter.

Operating Profit

The operating profit for the first nine months of 2005 amounted to approximately NIS 2,600 thousand (about EUR 471 thousand) as compared to an operating profit of approximately NIS 3,765 thousand (about EUR 681 thousand) for the corresponding period of 2004. The operating profit for the three months period ended September 30, 2005 amounted to approximately NIS 904 thousand (about EUR 164 thousand) as compared to an operating profit of approximately NIS 1,298 thousand (about EUR 235 thousand) for the corresponding quarter of 2004.

The decrease in operating profit results mainly from adaptations made in the reported period in R&D, sales and marketing expenses and in general and administrative expenses, required for supporting the continued growth as explained above. The decrease in operating profit from the beginning of the year is also attributed to the special bonus to the Company's CEO charged in the second quarter of 2005.

Financing Expenses (Net)

The financing expenses (net) for the first nine months of 2005 amounted to approximately NIS 722 thousand (about EUR 131 thousand) as compared to approximately NIS 1,641 thousand (about EUR 297 thousand) for the corresponding period of 2004. The financing expenses (net) for the three months period ended September 30, 2005 decreased and amounted to approximately NIS 154 thousand (about EUR 28 thousand) as compared to approximately NIS 577 thousand (about EUR 104 thousand) for the corresponding quarter of 2004.

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

Net Profit

In the first nine months of 2005, the Company reports a net profit which amounts to approximately NIS 1,908 thousand (about EUR 345 thousand), in comparison to a net profit of approximately NIS 2,099 thousand (about EUR 380 thousand) in the corresponding period of 2004. In the three months period ended September 30, 2005, the Company reports a net profit which amounts to approximately NIS 769 thousand (about EUR 139 thousand), in comparison to a net profit of approximately NIS 729 thousand (about EUR 132 thousand) in the corresponding period of 2004.

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

Analysis of Business Results by Sectors of Operations

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

The Products Sector

The Products sector's results for first nine months of 2005, amounted to approx. NIS 7,774 thousand (about EUR 1,407 thousand), as compared to approx. NIS 6,625 thousand (about EUR 1,199 thousand) for the corresponding period of 2004. The Products sector results for the three months period ended September 30, 2005, amounted to approx. NIS 2,879 thousand (about EUR 521 thousand), as compared to approx. NIS 2,642 thousand (about EUR 478 thousand) for the corresponding quarter of 2004. The increase in the results in the reported period is mainly attributable, in the Company's opinion, to the growth in revenues from the Products sector as explained above. The Company believes that different profit margins of certain transactions (in the ordinary course of Company's business), and the depreciation of the Euro against the NIS from the beginning of the year, are the main factors affecting the sector's results compared to the sector's revenues.

The Systems Sector

The Systems sector results for first nine months of 2005, amounted to approx. NIS 3,824 thousand (about EUR 692 thousand), as compared to approx. NIS 3,289 thousand (about EUR 595 thousand) for the corresponding period of 2004. The Systems sector results for the three months period ended September 30, 2005, amounted to approx. NIS 809 thousand (about EUR 147 thousand), as compared to approx. NIS 952 thousand (about EUR 172 thousand) for the corresponding quarter of 2004.

The relative stability in the results for the reported period in spite of the growth in revenues from the Systems sector since the beginning of the year, is mainly attributable in the Company's opinion to different profit margins of certain transactions (in the ordinary course of Company's business), the depreciation of the Euro against the NIS from the beginning of the year, and to certain adaptations to a possible growth in this sector, mainly through the recruitment and training of new employees intended to support future projects.

3. Liquidity and Financial Sources

The cash and cash equivalents and marketable securities of the Company as of September 30, 2005 amounted to approximately NIS 46,944 thousand (about EUR 8,492 thousand), as compared to approximately NIS 49,083 thousand (about EUR 8,880 thousand) as of December 31, 2004. This change is mainly attributable to the negative cash flow from operating activities as described below.

The cash flow from operating activities for the first nine months of 2005, amounted to a negative flow of approximately NIS 1,354 thousand (about EUR 245 thousand), and a positive cash flow of approximately NIS 50 thousand (about EUR 9.05) for the three months period ended September 30, 2005. The negative cash flow is mainly attributable to the previously described decrease in accounts payable (trade) item and the increase in the accounts receivable (trade) item, deducting the decrease in the inventory item.

The cash flow from investment activities for the first nine months of 2005, amounted to a negative cash flow of approximately NIS 4,303 thousand (about EUR 778 thousand), and approximately NIS 722 thousand (about EUR 131) for the three months period ended September 30, 2005, mainly as a result of investments in marketable securities and fixed assets from the beginning of the year.

The cash flow from financing activities for the first nine months of 2005, amounted to a negative amount of approximately NIS 1,299 thousand (about EUR 235 thousand) and approximately NIS 708 thousand (about EUR 128) for the three months period ended September 30, 2005. The negative flow resulted mainly from the repayment of long term loans from the beginning of the year, and from the purchase of Company shares by the Company during the reported period, as reported from time to time.

As of September 30, 2005, the aggregate credit framework available to the Company amounted to approximately NIS 9.9 million (about EUR 1.79 million), of which approximately NIS 1.7 million (about EUR 308 thousand) has been exploited mainly for guarantees to secure the Company's obligations in certain projects performed by its systems' division.

4. Exposure to Market Risks and Risk Management Handling

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

Exposure to Exchange Rate Fluctuations

The Company is exposed to exchange rate fluctuations, mainly among the dollar, the NIS and the Euro (including among themselves), for the following reasons:

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

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

The assets of the Company which are exposed to exchange rate fluctuations mainly include deposits in various currencies (mainly in Euro and United States Dollar), and non interest bearing liabilities of customers denominated in various currencies depending on the customer, and foreign currency-linked tradable securities.

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

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

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

Risks Related to Marketable Securities

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

Interest Related Risks

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

Company's Policy of Handling Market Risks

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

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

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

In parallel, and in order to further enhance its ability to address the above exposures, the Company invested through two separate financial entities in Israel, in portfolios linked to the US dollar and in acquisition of bonds linked to the US dollar with varying interest rates. The investments activity of the Company is controlled inter alia by a committee established for this purpose by the board of directors (the credit and investments committee).

Monetary Assets and Liabilities Classified by Linkage Basis

	September 30, 2005					
	Israeli currency		Other currencies			
	Not linked	Linked to the Israeli CPI	EURO	USD	Non monetary assets and liabilities	Total
	NIS in thousands					
Assets						
Cash and cash equivalents	2,997	-	5,947	5,047	-	13,991
Marketable securities	3,799	16,149	-	13,005	-	32,953
Accounts receivable - Trade	6,247	-	1,831	1,658	-	9,736
Accounts receivable - Other	59	604	-	-	65	728
Inventory	-	-	-	-	8,478	8,478
Inventory - work in progress	-	-	-	-	130	130
Long-term deposits	-	-	-	-	199	199
Property and equipment	-	-	-	-	22,377	22,377
Other assets	-	-	-	-	3,557	3,557
Total assets	13,102	16,753	7,778	19,710	34,806	92,149
Liabilities						
Credit from banks and others	5,825	159	628	532	-	7,144
Accounts payable - Trade	6,985	-	3,233	130	-	10,348
Accounts payable - Other	7,364	-	-	180	336	7,880
Long-term debt	-	397	-	4,655	-	5,052
Convertible bonds	-	-	3,974	33,768	-	37,742
Accrued severance pay, net	1,575	-	-	-	-	1,575
Deferred taxes	-	-	-	-	224	224
Total liabilities	21,749	556	7,835	39,265	560	69,965
	(8,647)	16,197	(57)	(19,555)	34,246	22,184

Tzvi Livne
Director

Haim Shani
Chairman & CEO

Date: November 17th, 2005

UNITRONICS (1989) (R"G) LTD.

Financial Statements
As of September 30, 2005

(Unaudited)

Unitronics (1989) (R"G) Ltd.

Financial Statements

As of September 30, 2005

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AMIT, HALFON C.P.A (ISR)
A member firm of DFK international

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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 September 30, 2005, and the related interim consolidated statements of operations, changes in shareholders' equity and cash flows for the nine 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 September 30, 2005 represent approximately 3% of the total assets included in the Consolidated Interim Balance Sheet and whose income for the nine month period ending September 30, 2005 represents approximately 11% of the total income included in the Consolidated Interim Statement of Operations.

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

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

Amit, Halfon
Certified Public Accountants (Israel)

November 17, 2005

Unitronics (1989) (R"G) Ltd. **Consolidated Balance Sheets**	***September 30, 2005***	***September 30, 2005***	***September 30, 2004***	***December 31, 2004***
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro(1)		**Reported NIS**	
Cash and cash equivalents	2,531	13,991	24,361	20,947
Marketable securities	5,961	32,953	21,195	28,136
Accounts receivable -				
Trade	1,761	9,736	11,440	6,862
Other	132	728	997	903
Inventory	1,534	8,478	7,407	9,785
Inventory - work in progress	24	130	-	443
Current assets	*11,943*	*66,016*	*65,400*	*60,076*
Long-term deposits	*36*	*199*	*120*	*133*
Property and equipment, net	*4,048*	*22,377*	*21,877*	*22,620*
Other assets and deferred expenses, net	*644*	*3,557*	*4,433*	*4,157*
Total assets	***16,671***	***92,149***	***91,830***	***93,986***
Credit from banks and others	*1,292*	*7,144*	*1,125*	*1,127*
Accounts payable -				
Trade	*1,872*	*10,348*	*10,898*	*13,730*
Other	*1,426*	*7,880*	*9,541*	*7,895*
Current liabilities	*4,590*	*25,372*	*21,564*	*22,752*
Long-term debt	*914*	*5,052*	*11,157*	*11,062*
Convertible bonds	*6,827*	*37,742*	*37,845*	*38,252*
Accrued severance pay, net	*285*	*1,575*	*1,229*	*1,140*
Deferred taxes	*41*	*224*	*200*	*165*
Long-term liabilities	*8,067*	*44,593*	*50,431*	*50,619*
Shareholders' equity	*4,014*	*22,184*	*19,835*	*20,615*
Total liabilities and shareholders' equity	***16,671***	***92,149***	***91,830***	***93,986***

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

Tzvi Livne
Director

Yair Itscovich
Chief Financial Officer

Approved: November 17, 2005.

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Operations	For the nine months period ended September 30,	For the nine months period ended September 30,		For the three months period ended September 30,	For the three months period ended September 30,		For the year ended December 31,
	2005	2005	2004	2005	2005	2004	2004
	(unaudited)	(unaudited)		(unaudited)	(unaudited)		(audited)
				(in thousands)			
	Convenience translation into Euro (1)	Reported NIS		Convenience translation into Euro (1)	Reported NIS		
Revenues	10,896	60,228	44,025	3,688	20,388	15,941	61,771
Cost of revenues	7.492	41,412	28,329	2,542	14,053	10,452	40,069
Gross profit	*3,404*	*18,816*	*15,696*	*1,146*	*6,335*	*5,489*	*21,702*
Research & development expenses, net	728	4,026	3,068	248	1,372	1,052	4,169
Selling & marketing expenses	1,228	6,788	5,509	455	2,513	1,924	7,746
General & administrative expenses	977	5,402	3,354	280	1,546	1,215	4,691
Operating profit	*471*	*2,600*	*3,765*	*164*	*904*	*1,298*	*5,096*
Financing expenses, net	131	722	1,641	28	154	577	2,193
Operating profit after financing expenses, net	*340*	*1,878*	*2,124*	*136*	*750*	*721*	*2,903*
Other income, net	-	-	48	-	-	48	48
Profit before taxes on income	*340*	*1,878*	*2,172*	*136*	*750*	*769*	*2,951*
Tax benefits (taxes on income)	5	30	(73)	3	19	(40)	(72)
Profit for the period	*345*	*1,908*	*2,099*	*139*	*769*	*729*	*2,879*
Profit per 1 NIS ordinary share							
Basic	1.48	8.18	9.34	0.60	3.30	3.12	12.69
Fully diluted	1.43	7.89	8.72	0.55	3.03	3.12	12.69
Supplementary information (2)							
Profit per ordinary share							
Basic	0.030	0.164	0.187	0.012	0.066	0.062	0.254
Fully diluted	0.028	0.158	0.174	0.011	0.061	0.062	0.254

(1) See note 2E.

(2) See note 2F.

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

Unitronics (1989) (R"G) Ltd. Statements of Shareholders' Equity	**Share capital**	**Share premium**	**Receipts on account of warrants**	**Company shares held by the company**	**Accumulated Loss**	**Total**
			Reported NIS in thousands			
Balance at January 1, 2004 (audited)	336	43,721	-	-	(31,734)	12,323
Issue of share capital	16	4,721	-	-	-	4,737
Receipts on account of warrants	-	-	676	-	-	676
Profit for the year	-	-	-	-	2,879	2,879
Balance at December 31, 2004 (audited)	352	48,442	676	-	(28,855)	20,615
Purchase of company shares by the company	-	-	-	(339)	-	(339)
Profit for the period	-	-	-	-	1,908	1,908
Balance at September 30, 2005 (unaudited)	352	48,442	676	(339)	(26,947)	22,184
Balance at January 1, 2004 (audited)	336	43,721	-	-	(31,734)	12,323
Issue of share capital	16	4,721	-	-	-	4,737
Receipts on account of warrants	-	-	676	-	-	676
Profit for the period	-	-	-	-	2,099	2,099
Balance at September 30, 2004 (unaudited)	352	48,442	676	-	(29,635)	19,835
Balance at July 1, 2005 (unaudited)	352	48,442	676	-	(27,716)	21,754
Purchase of company shares by the company	-	-	-	(339)	-	(339)
Profit for the period	-	-	-	-	769	769
Balance at September 30, 2005 (unaudited)	352	48,442	676	(339)	(26,947)	22,184
Balance at July 1, 2004 (unaudited)	352	48,381	676	-	(30,364)	19,045
Refund of offering expenses	-	61	-	-	-	61
Profit for the period	-	-	-	-	729	729
Balance at September 30, 2004 (unaudited)	352	48,442	676	-	(29,635)	19,835

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

Unitronics (1989) (R"G) Ltd. Statements of Shareholders' Equity	**Share capital**	**Share premium**	**Receipts on account of warrants**	**Company shares held by the company**	**Accumulated Loss**	**Total**
	Convenience translation into Euro in thousands (unaudited) (1)					
Balance at January 1, 2005	64	8,764	122	-	(5,220)	3,730
Purchase of company shares by the company	-	-	-	(61)	-	(61)
Profit for the period	-	-	-	-	345	345
Balance at September 30, 2005	64	8,764	122	(61)	(4,875)	4,014
	Convenience translation into Euro in thousands (unaudited) (1)					
Balance at July 1, 2005	64	8,764	122	-	(5,014)	3,936
Purchase of company shares by the company	-	-	-	(61)	-	(61)
Profit for the period	-	-	-	-	139	139
Balance at September 30, 2005	64	8,764	122	(61)	(4,875)	4,014

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

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

	For the nine months period ended September 30,	*For the nine months period ended September 30,*		*For the three months period ended September 30,*	*For the three months period ended September 30,*		*For the year ended December 31,*
	2005	**2005**	**2004**	**2005**	**2005**	**2004**	**2004**
	(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	345	1,908	2,099	139	769	729	2,879
Adjustments necessary to show the cash Flows from operations (Appendix A)	(590)	(3,262)	4,962	(130)	(719)	75	8,787
Cash flows provided by (used in) operating activities	*(245)*	*(1,354)*	*7,061*	*9*	*50*	*804*	*11,666*
Investment in marketable securities, net	(548)	(3,030)	(19,804)	(4)	(22)	(19,837)	(26,695)
Purchase of property and equipment	(206)	(1,140)	(2,852)	(118)	(648)	(624)	(4,309)
Sale of equipment	-	-	246	-	-	246	246
Investment in long-term deposits	(17)	(91)	(24)	(12)	(66)	(12)	(37)
Repayment of long-term deposits	5	25	20	3	14	-	20
Investment in other assets	(12)	(67)	(56)	-	-	(54)	(58)
Cash flows used in investing activities	*(778)*	*(4,303)*	*(22,470)*	*(131)*	*(722)*	*(20,281)*	*(30,833)*
Deferred offering expenses	-	-	(4,184)	-	-	61	(4,184)
Long-term loan received	-	-	283	-	-	283	283
Repayment of long-term loans	(172)	(947)	(723)	(67)	(369)	(429)	(594)
Short-term credit from banks, net	(2)	(13)	7	-	-	7	13
Purchase of company shares by the company	(61)	(339)	-	(61)	(339)	-	-
Share capital issue	-	-	4,737	-	-	-	4,737
Receipts on account of warrants	-	-	676	-	-	-	676
Convertible bonds issue	-	-	33,153	-	-	-	33,153
Cash flows provided by (used in) financing activities	*(235)*	*(1,299)*	*33,949*	*(128)*	*(708)*	*(78)*	*34,084*
Increase (decrease) in cash and cash equivalents	*(1,258)*	*(6,956)*	*18,540*	*(250)*	*(1,388)*	*(19,555)*	14,917
Cash and cash equivalents at beginning of period	3,789	20,947	5,821	2,781	15,371	43,916	6,030
Cash and cash equivalents at end of period	*2,531*	*13,991*	*24,361*	*2,531*	*13,991*	*24,361*	*20,947*

(1) See note 2E.

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Cash Flows	***For the nine months period ended September 30,***	***For the nine months period ended September 30,***		***For the three months period ended September 30,***	***For the three months period ended September 30,***		***For the year ended December 31,***
	2005	**2005**	**2004**	**2005**	**2005**	**2004**	**2004**
	(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	401	2,218	1,413	137	756	661	2,099
Profit from marketable securities, net	(323)	(1,787)	(137)	(188)	(1,043)	(124)	(396)
Capital gain	-	-	(48)	-	-	(48)	(48)
Change in accrued severance pay, Net	79	435	161	33	184	62	72
Deferred taxes, net	(9)	(50)	45	(5)	(28)	12	32
Exchange rate differences on long-term debt and convertible bonds	18	98	251	14	80	48	326
Increase in accounts receivable - trade	(520)	(2,874)	(6,526)	(719)	(3,974)	(6,205)	(1,617)
Decrease (increase) in accounts receivable - other	32	175	(494)	84	467	108	(400)
Decrease (increase) in inventory	236	1,307	(1,028)	(168)	(929)	(1,306)	(3,406)
Decrease in inventory - work in progress	57	313	1,348	188	1,038	198	905
Increase (decrease) in accounts payable - trade	(558)	(3,082)	5,475	98	543	2,994	8,695
Increase (decrease) in accounts payable - other	(3)	(15)	4,502	396	2,187	3,675	2,525
	(590)	*(3,262)*	*4,962*	*(130)*	*(719)*	*75*	*8,787*
Appendix B - Non cash transactions							
Payables related to property and equipment	-	-	688	-	-	688	300

(1) See note 2E.

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

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

Note 1 - General

These financial statements have been prepared in a condensed format as of September 30, 2005, and for the nine and the three months then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of December 31, 2004 and for the year then ended.

Note 2 - Significant Accounting Policies

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

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

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

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

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

As of	**Israeli CPI**	**Exchange rate of One U.S. dollar**	**Exchange rate of One Euro**
	Points (*)	**NIS**	**NIS**
September 30, 2005	184.15	4.598	5.5275
September 30, 2004	180.74	4.482	5.5247
December 31, 2004	180.74	4.308	5.8768
Change during the period	**%**	**%**	**%**
September 2005 (nine months)	1.89	6.73	(5.94)
September 2004 (nine months)	1.21	2.35	(0.15)
September 2005 (three months)	1.38	0.52	0.01
September 2004 (three months)	(0.20)	(0.33)	1.08
December 2004 (12 months)	1.21	(1.62)	6.21

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

Note 2 - Significant Accounting Policies (cont')

E. Convenience translation in EURO

For the convenience of the reader, the reported NIS amounts for the last reported period have been translated in EURO by dividing each reported NIS amount by the representative rate of exchange of the EURO as at September 30, 2005 (EURO 1 = NIS 5.5275).

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

F. Profit per ordinary share

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

Note 3- Application of new accounting standards and its influence on the financial statements

Accounting Standard No. 22 - "Financial Instruments: Disclosure and Presentation"

In July 2005, the Israel Accounting Standards Board issued Accounting Standard No. 22, "Financial Instruments: Disclosure and Presentation".

This Standard prescribes principles regarding the presentation of financial instruments and details the proper disclosure required in their respect in the financial statements. The presentation principles apply to the classification of financial instruments or their component parts, on initial recognition as a financial liability, financial asset or equity instrument; the classification of related interest, dividends, losses and gains; and the circumstances in which a financial asset and a financial liability should be offset. This Standard shall apply to financial statements for periods commencing on or after January 1, 2006.

The Company is currently evaluating the effect of the new Standard on its financial statements, but at this stage it is unable to estimate the aforementioned effect.

Accounting Standard No. 24 - "Share-based payment"

In September 2005, the Israel Accounting Standards Board issued Accounting Standard No. 24, "Share-Based Payment".

This Standard requires the Company to recognize share-based payment transactions in its financial statements in respect to, for example, the purchase of goods or services. Such transactions include transactions with employees or other parties that must be settled in the Company's equity instruments or in cash, as well as transactions that provide the Company or the supplier of the service or goods with a choice of settling in cash or in equity instruments.
For equity-settled share-based payment transactions, the Standard applies to grants made subsequent to March 15, 2005, and which had not yet vested as of January 1, 2006 (the effective date). The Standard shall also apply to modifications (not just to grants) that were made to the conditions of equity-settled transactions subsequent to March 15, 2005, even if the grants to which the modifications were made are not subject to the Standard. In the financial statements for 2006, comparative data in the financial statements for 2005 shall be restated in order to reflect the expense relating to the aforementioned grants.

The Company is currently evaluating the new Standard, but is unable at this stage to estimate the effect of the Standard on the financial statements.

Note 4 - Business segments

A. Revenues

Unitronics (1989) (R"G) Ltd. Consolidated	***For the Nine months period ended September 30,***	***For the nine months period ended September 30,***		***For the three months period ended September 30,***	***For the three months period ended September 30,***		***For the year ended December 31,***
	2005	**2005**	**2004**	**2005**	**2005**	**2004**	**2004**
	(unaudited)	**(unaudited)**		**(unaudited)**	**(unaudited)**		**(audited)**
				(in thousands)			
	Convenience translation into Euro	**Reported NIS**		**Convenience translation into Euro**	**Reported NIS**		
Products	4,876	26,952	21,925	1,737	9,603	7,877	29,883
System integration projects	5,920	32,722	21,649	1,913	10,574	7,813	31,263
Other	100	554	451	38	211	251	625
Total revenues	*10,896*	*60,228*	*44,025*	*3,688*	*20,388*	*15,941*	*61,771*

B. Segment results

Products	1,407	7,774	(*) 6,625	521	2,879	(*) 2,642	9,241
System integration projects	692	3,824	(*) 3,289	147	809	(*) 952	4,934
Other	14	78	81	8	46	80	114
Unallocated corporate Expenses	(1,642)	(9,076)	(6,770)	(512)	(2,830)	(2,376)	(9,193)
Operating profit (loss)	*471*	*2,600*	*3,765*	*164*	*904*	*1,298*	*5,096*

(*) Re-classified.

Note 5 - Contingent liabilities

The company encountered a conflict with IMO Jeambrun Automation SAS (hereafter "IMO") in France that acquired in August 2004 the business activities of the company's exclusive distributor in France, following its insolvency declaration.

In April 2005, the company appealed to the Israeli court to appoint an arbitrator in order to check IMO's claims regarding the termination of the agreement between the companies following a six months advanced termination notice. In addition the Company appealed for and was granted an permission for service of process outside Israel's territory. IMO appealed to cancel such permission for service and this matter is expected to be addressed by the court in the coming months. According to the legal advisors of the company the results of this procedure can not be currently estimated.

Following the appeal in Israel to appoint an arbitrator, IMO filed in France two lawsuits against the Company: A first lawsuit requesting to enforce the delivery of products – a lawsuit that was rejected by the French court pursuant to a rapid procedure in a sentence from June 7th 2005 (IMO appealed on this matter, and a court session for such matter has not been set as of yet). According to the legal advisors of the company the results of this procedure can not be currently estimated.

The second lawsuit is a monetary claim in excess of one million Euro, claiming unfair competition. No court session has yet been set for this claim. According to the legal advisors of the company the results of this procedure can not be currently estimated.

Further lawsuit, filed in by the company against the purchaser's parent company and its owner, is also a monetary claim of one million Euro, claiming non-innocent behavior of the parent company regarding their relations with the company and its attempts to illegally corner the French market. The prosecution claim has not been handed, therefore the defense claim has not been served yet. According to the legal advisors of the company the results of this procedure can not be currently estimated.

Note 6 - Events after the balanced date

On June 25, 2005 an adjustment to the income tax ordinance (no. 147) 2005, was approved by the government. This adjustment reduces the company tax rates in stages: 2006 - 31%, 2007 - 29%, 2008 - 27%, 2009 - 26%, 2010 - 25%.
The adjustment should not have a material effect on the company's financial position and results of operations.