Unitronics (1989)(R”G) LTD.

2005 – Periodic and Annual Report

Table of Contents

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

CHAPTER A – DESCRIPTION OF THE COMPANY'S BUSINESS (Reg. 8.A.)

1.1 General

Company's Name:	Unitronics (1989) (R"G) Ltd. (hereinafter: the "**Company**" or "**Unitronics**")
Company No.:	520044199
Address:	Unitronics House, Arava Street, Airport City, P.O.B. 300, Israel 70100
Email Address:	investors@unitronics.com
Telephone:	03-9778888
Facsimile: (Reg. 25A)	03-9778877
Date of Balance Sheet: (Reg. 9)	December 31, 2005
Date of Report: (Regs. 1 and 7)	March 27, 2006

Description of the general development of the Company's business

1.2 The Company's activity and description of its business development

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

The Company was incorporated in August 1989 as a private company pursuant to the Israeli Companies Ordinance (New Version), 5743-1983 (**"Companies Ordinance"**), and since then has been primarily active in the field of PLCs and in projects involving automation, computerization and integration of computerized production and/or logistics systems. In July 1999 the Company became a public company within the meaning of the Companies Ordinance. The Company's shares are listed for trading on the EuroNext Stock Exchange in Belgium, and its shares, convertible bonds (series 1) and option instruments (series 1) are listed for trading on the Tel Aviv Stock Exchange.

The Company operates from facilities comprising approx. 2,232 square meters in the "**Unitronics House**", an offices and industry building situated at Airport City near the David Ben Gurion Airport, where the Company leases approx. 1,600 square meters from the Israel Land Administration since August 2000 and rents approx. 632 square meters from a controlling shareholder (approx. 196 square meters since August 2004 and approx. 436 square meters since August 2005).

The Company has two wholly owned active subsidiaries, Unitronics, Inc., which is incorporated in the United States (Delaware) and engages primarily in coordinating the Company's marketing and distribution operations in the United States, and Unitronics House Management & Maintenance (2003) Ltd., which is primarily engaged in the management and maintenance of the Unitronics House.

1.3 Sectors of activity

The Company's commercial activity is carried out through two business departments: a products department and a systems department. Through the products department the Company engages in the design, development, manufacture, marketing and sale of its products, mainly certain series of PLCs of various models (nano, micro and small PLCs) that incorporate an operating panel (a keyboard and a display) as an integral part of the PLC, and connectivity (including Internet, intranet, and cellular phone communications), as well as external expansion units for the PLCs, software for the PLCs, for management of logistics systems and for management of production floors, and additional auxiliary items. Through the systems department the Company engages in the design, construction and maintenance of computerized storage and/or logistics systems, mainly automated warehouses and distribution centers, including construction of new systems and/or the upgrading and servicing of existing systems, and maintenance services for these systems, based on framework arrangements or on call. The services of the systems department are provided mainly to customers in Israel, and in a few cases also to customers outside Israel.

The Company's products and services are marketed and sold through the Company's internal marketing staff, a network of distributors consisting of over one hundred distributors, extending over about fifty countries throughout Europe, Asia, South and Central America, North America and Africa, and a wholly owned subsidiary incorporated in the United States. The Company's customers and/or users of the Company's products include, *inter alia,* manufacturers of industrial machinery, OEM manufacturers, production and industrial factories and businesses managing automated storage, retrieval and logistics systems.

1.4 Investments in the Company's capital and transactions with its shares

Below are details of investments in the Company's capital implemented during the last two years and, to the best knowledge of the Company, details of all other material transactions effected with the Company's shares, off stock exchange by Company affiliates:

1.4.1 On January 29, 2003 the Company effected a private placement of its shares as part of an allotment agreement with an unaffiliated private investor, under which 109,410 ordinary shares of the Company of NIS 0.02 par value each (hereinafter: "**Ordinary Shares**") were allotted at a price of € 1.022 per share (average price on the stock exchange in Belgium of the Company's shares at that time) and for a total consideration of approx. € 111,820. Pursuant to the terms of the said allotment agreement these shares were listed for trading on the stock exchange in Belgium.

1.4.2 On December 18, 2003 the Company allotted 1,902,748 ordinary shares to Company bondholders as part of the conversion of convertible Company bonds (as detailed below). Pursuant to the terms of the said allotment agreement these shares were listed for trading on the stock exchange in Belgium. The conversion of the bonds as aforesaid took place within the framework of an amendment to the terms of a private placement from 2001, whereby the Company allotted to two unaffiliated offerees bonds convertible, up to February 2006, into a total number of 634,250 Ordinary Shares, at an exercise price of € 4.73 per share (hereinafter: the "**Bonds**"). The Bonds were allotted pursuant to agreements of January 31, 2001 (hereinafter: the "**Original Bond Agreement**").

In November and December 2003, the Company and the said bondholders signed an appendix to the Original Bond Agreement under which such agreement was amended and the terms of the Bonds revised (hereinafter: the **"Appendix to the Original Agreement"**). Pursuant to the Appendix to the Original Agreement, the exercise price of the Bonds was modified at a 4:1 ratio, i.e., from a price of € 4.73 per share to that of € 1.1825 per share (average market price at that time). Within this framework, such bondholders converted € 2,250,000 in principal amount of Bonds into Ordinary Shares, at a price of € 1.1825 per share (instead of € 4.73 per share), waiving interest or other payments with respect to the sum converted. In consequence of the aforesaid conversion 1,902,748 Ordinary Shares were issued, representing approx. 17.5% of the Company's issued and paid up share capital following the conversion. The balance of the Bonds' principal (in the sum of approx. € 750,000) remains payable/convertible at revised terms, the essence of which is as follows: (a) Annual repayment at a rate of 6.63% (repayment at a rate of 115% of the principal sum, in addition to interest payments at a rate of 4% per annum up to February 2006, inclusive, and subsequently at a rate of 8.13% per annum); (b) Repayment in ten quarterly installments (principal + interest) as of May 2006; (c) The unpaid principal is convertible into Ordinary Shares at an exercise price of € 4.73 per share, reflecting a possible allotment of up to 158,562 Ordinary Shares; (d) Listing the conversion shares for trading on the stock exchange in Belgium, which was already performed.

1.4.3 In May 2004 the Company published a prospectus in Israel (hereinafter: the "**Israeli Prospectus**") under which units were offered to the public consisting of 800,000 Ordinary Shares, NIS 35 million par value bonds (series 1) convertible into Ordinary Shares and 1,000,000 option instruments (series 1) exercisable into Ordinary Shares (for further details concerning the terms of such bonds and options, see section 1.30 below). These shares and securities were allotted on May 20, 2004 and were listed for trading on the Tel Aviv Stock Exchange. The gross proceeds from such securities amounted to approx. NIS 39,290 thousand.

1.4.4 On June 22, 2004 the Company issued to three of the underwriters of the Israeli Prospectus a total amount of 300,000 option instruments (series 1), for no consideration, identical in all respects to the option instruments (series 1) offered and issued under the Israeli Prospectus. These option instruments are subject to lock-up arrangements pursuant to the Israeli Securities Law, 5728-1968 and the Securities Regulations (Details with regard to Sections 15A to 15C of the Law), 5760-2000.

1.4.5 In July 2004 the Company published a prospectus in Belgium for the purpose of the listing for trading on the EuroNext Stock Exchange of 7,875,200 Ordinary Shares which were offered under the Israeli Prospectus and/or will be derived from the exercise of the convertible securities issued thereunder. On July 12, 2004, 800,000 Ordinary Shares offered and issued under the Israeli Prospectus were listed for trading on the EuroNext Stock Exchange (in addition to 10,876,546 Ordinary Shares which were traded there up that date). An additional maximum amount of 7,075,200 Ordinary Shares of the Company to be derived from the conversion and/or exercise of the option instruments (series 1) and bonds (series 1) issued under the Israeli Prospectus will be listed for trading on the EuroNext Stock Exchange at a later date to be determined precisely in accordance with the exercise and/or conversion date of these securities, and subject to the Company's notice to the authorities in Belgium to that effect.

On April 12, 2005 1,000,000 (one million) Ordinary Shares of the Company, traded up to that date on the EuroNext Stock Exchange, were listed for trading on the Tel Aviv Stock Exchange (in addition to the Company's securities which were listed for trading on the Tel Aviv Stock Exchange under the Israeli Prospectus as detailed above). As of the date of this report, out of a total amount of 11,676,546 Ordinary Shares of the Company of NIS 0.02 par value each listed for trading, 1,800,000 Ordinary Shares are listed for trading on the Tel Aviv Stock Exchange and 9,876,546 Ordinary Shares are listed for trading on the EuroNext Stock Exchange in Belgium.

1.4.6 On August 1, 2004 Mr. Haim Shani, CEO, Chairman of the Board of Directors and controlling shareholder, acquired, in a private off-stock exchange transaction, from two of the three underwriters as detailed in section 1.4.4 above, 200,000 option instruments (series 1) at a price of NIS 1 per option and NIS 200,000 in total, subject to the lock-up arrangements applicable thereto, as detailed in section 1.4.4 above.

1.4.7 As of August 2005 the Company purchases from time to time Ordinary Shares of the Company within the framework of the trading on the Stock Exchange. As of March 27, 2006 the Company holds a total of 132,425 Ordinary Shares purchased as stated (out of an existing 11,676,546 Ordinary Shares in the Company's issued share capital). These purchases were made for a total sum of approx. NIS 641 thousand and at prices of between NIS 3.23 and NIS 5.5 per share. As long as these shares are owned by the Company, they are "dormant shares" within the meaning of this term in the Companies Law, 5759-1999. On March 27, 2006 the Company's board of directors approved additional acquisitions of Ordinary Shares of the Company for an aggregate additional sum of up-to NIS360,000, upon similar terms. For further details concerning these purchases, see immediate reports published by the Company from time to time pursuant to such purchases, between August 18, 2005 and January 8, 2006.

1.4.8 On December 15, 2005 the general meeting of the Company's shareholders approved a private allotment of options for the purchase of a total of 10,000 Ordinary Shares of the Company of 0.02 par value each, to Mr. Ron Mishael, who was elected in that meeting to a further term as an external director of the Company. On March 27, 2006 the Company's audit committee and board of directors re-affirmed and, subject to the re-affirmation of the general meeting of the Company's shareholders, issued these options to Mr. Mishael, according to the requirements of Section 102 of the Israeli Internal Revenue Ordinance [New Version] and the Company's 2003 Plan (for details see Section 4.10.3c below), with the other terms essentially similar to those pursuant to which the other directors pf the Company were granted options under the Company's 1999 Plan (for further details regarding the terms of the options, see immediate report of December 15, 2005).

1.4.9 On February 20, 2006 the Audit Committee and the Board of Directors approved the Company's execution of a market-making agreement with Harel Investment House Ltd. (hereinafter: **"Harel"**), pursuant to which Harel is to act as a market maker for the Company's shares in accordance with the Tel Aviv Stock Exchange Regulations and the directives and resolutions of the Tel Aviv Stock Exchange Directorate. The agreement became effective on March 1, 2006, after the approval of the stock exchange was received for Harel's appointment as a market maker for the Company's shares (for details of the terms of the agreement see immediate report of February 21, 2006). The agreement with Harel is in addition to the Company's agreement with a market maker (Sponsor Market Maker) in Belgium, which was signed upon the listing of the Company's shares for trading on the EuroNext Stock Exchange in Brussels, Belgium, pursuant to the requirements applicable to the Company as a company whose shares are traded on the stock exchange in Belgium and in order to secure the frequency and liquidity of trading in shares of the Company on that stock exchange.

1.5 Distribution of dividends

The Company has not distributed dividends since the date of its founding. The Company has no plans to distribute any dividends in the foreseeable future.

Other information

1.6 Financial information with respect to the Company's sectors of activity

1.6.1 Below is financial information with respect to the Company's sectors of activity:

	For the year ended December 31		
	2005	**2004**	**2003**
		NIS thousand	
	Reported	Reported	Adjusted
Revenues:			
Products	37,201	29,883	21,181
Systems	42,862	31,263	19,125
Other	711	625	-
Total revenues (*)	80,774	61,771	40,306
Sector costs			
Products	26,703	20,462	16,069
Systems	38,271	26,329	16,650
Other	638	511	-

Total	65,612	47,482	32,719
Sector results			
Products	10,498	9,241	5,112
Systems	4,591	4,934	2,475
Other	73	114	-
Total	15,162	14,289	7,587
Non-attributed expenses	(11,990)	(9,193)	(7,066)
Operating profit (*)	3,172	5,096	521

(*) Consistent with the financial statements

	As at December 31	
	2005	2004
	NIS thousand	
	Reported	Reported
Assets utilized by the sector:		
Products	14,450	14,056
Systems	7,186	4,377
Other	243	183
Unappropriated	75,860	75,370
Total assets (*)	97,739	93,986

(*) Consistent with the financial statements

1.6.2 The Company has no inter-sector revenues and accordingly there are no adjustments of the above figures. For details concerning developments in the above data see sections 2.2 and 2.3 below.

1.7 General environment and impact of external factors on the Company's activity

Industrial automation is being implemented at an increasing rate in a variety of industries, including process industries (the food, drink, pharmaceuticals, chemical, paper and fuel industries), production systems (production machinery, automated tools), energy production systems (power stations of all kinds), logistics systems (storage, conveying and distribution systems) building control systems (air conditioning, heating, energy control, access control, warning and security systems), transportation systems (vehicles, aviation and shipping, traffic control), etc. The Company believes that the need for automation is attributable, amongst other reasons, to the increasing complexity of industrial processes; the increase in the volumes and types of activities and the information required to manage them; the aspiration to improve the efficiency of processes (optimization) and to increase the availability of means while implementing safety rules; and the desire to economize on manpower and manual intervention. Automation products are intended to address these requirements, including rapid response to the changing needs of the market, simplicity of design and of operation, connectivity to organizational management systems (ERP), high reliability and time between malfunctions (MTBF), high availability, as well as savings and efficiency.

For an analysis of the general environment the Company relies, *inter alia*, on several market surveys, including a summary of a survey and forecast from September 2005 conducted by ARC Advisory Group, titled Programmable Logic Controllers Worldwide Outlook (Market Analysis and Forecast through 2009) (summary accessible to the public on http://www.arcweb.com) (hereinafter: the "**ARC Report**"); a survey and forecast from August 2004 conducted by IMS Research, titled PLC 2004 Worldwide (summary accessible to the public on http://www.imsreasearch.com), and publications from September and December 2004 by the same entity (hereinafter, jointly: the "**IMS Report**"); and a survey and forecast from July 2001 conducted by Frost & Sullivan (Frost & Sullivan World Programmable Logic Controllers #7450-10) (hereinafter: the **"Frost & Sullivan Report"**).

The Company's activity includes, as explained above, the activities of the products department (design, manufacture and marketing of PLCs) and the activities of the systems department (design, construction and maintenance of automated logistics systems, mainly automated warehouses and distribution centers). The Company's management believes that these two activity sectors are impacted by the increasing need for the application of automation stemming from the factors explained above, and by the state of the world and local economies and their general influence on various industries. Thus, for example, the above market surveys report expectations for an average annual increase of between 4.5% and 5.9% in sales of PLCs throughout the world in the coming years (up to 2009), with certain sectors, such as the consumer products industry, presented in such reports as being less affected by the state of the world economy than others. For instance, as regards the food and drink industries, the ARC Report reports expectations for continued growth at a rate of 6.7% per year, while the IMS Report presents this rate at 7.3% per year, whereas regarding the building control industry, the ARC Report reports expectations for continued growth at a rate of 8.9% per year, while the IMS Report reports presents this rate at 10.9% per year, up to years 2008-2009.

Additional trends in the global automation market are the economic growth and accelerated industrial development of certain geographic regions of the world, such as China and Eastern Europe, which show increased activity in establishing local production capabilities and enterprises and increasing introduction of automation into such enterprises.

Notwithstanding the aforesaid, the Company is unable to either estimate or quantify the impact of such developments on the results of its operations.

For a discussion of other external factors, including specific market risks (such as exposure to changes in currency rates, interest rates and the like) and their management methods, see sections 1.39 and 2.3 below. For a discussion of information concerning the general environment and external factors relevant to each sector of activity separately, see section 1.9 below. As stated there, although the Company operates in the products sector and in the systems sector separately in terms of policy, decision making, budgets, resources and other inputs, there is a synergy between these sectors within the Company, as well as a continuous process of feedback and mutual contribution, primarily in respect of feedback concerning market needs and customers' preferences, technological trends, business opportunities, data on competition, and other areas. The Company's CEO, together with its management, implement the mutual contribution and feedback as aforesaid on an ongoing basis.

Description of the Company's business by sectors of activity

1.8 General

The Company engages, as stated above, in the design, development, manufacture, marketing and sale of industrial automation products, mainly PLCs, and in design, construction and maintenance services within the framework of projects for the automation, computerization and integration of computerized production and/or logistics systems, mainly automated warehouses and distribution centers. This report presents below the various aspects related to the Company's activity, while reviewing separately, to the extent possible, the products sector and the systems sector.

1.9 General information concerning each business sector

1.9.1 Products sector – Programmable Logic Controllers (PLCs):

Below is a description of trends, events and developments in the Company's macroeconomic environment, which have or are expected to have a material effect on the business results of the Company, and developments therein in the products sector:

1.9.1.1 Current and anticipated volumes of the PLC market

According to the ARC Report (see above), the global PLC market is estimated at approx. $ 7 billion in 2004, and is expected to grow to approx. $ 9.2 billion by 2009. The IMS Report (see above) estimates the global PLC market at approx. $ 5.98 billion in 2003, and anticipates a growth to approx. $ 7 billion by 2008. The earlier Frost & Sullivan Report estimated the market at approx. $ 6.7 billion already in 2001, and anticipated a growth to even as much as $ 9 billion in 2007 (this report preceded the global economic crises in the years 2001 to 2003). These sources estimate the present and projected average annual growth rate of the global PLC market between 2004 and 2009 to be approx. 4.5% to 5.9%, taking account of several trends as follows:

a. PLCs of various sizes: The number and type of external devices that can be connected to and controlled by a PLC define its dimensions as a nano PLC, micro PLC, small PLC, medium PLC or large PLC. As stated in section 1.10.1 below, the Company focuses in the products sector on nano, micro and small PLCs, that have, based on the sources quoted above, the highest relative rates of growth. According to the ARC Report, the projected annual growth rate in the years 2004 to 2009 is 11.7% for nano PLCs (according to Frost & Sullivan 11.3%), 8.6% for micro PLCs (according to Frost & Sullivan 10.3%), and 4.1% for small PLCs (according to Frost & Sullivan 4.9%). The ARC Report notes an increasing trend among consumers towards implementing PLC-based automation solutions that are regarded virtually as off-the-shelf products, with nano and micro PLCs even sold as commodities and the manufacturer in some cases being unaware of their final use.

b. Areas of Application: Concurrently with the increasing need for automation as explained above, the global and local economy impact on the market, as reflected, *inter alia*, in the different rates of development of the market anticipated in the coming years in the different industrial sectors. Thus, for example, the ARC Report estimates that the motor vehicle industry, which accounts for approx. 17% of the global industrial PLC market, will grow between 2004 and 2009 by approx. 5.9% per year; the food and drink industry, which accounts for 12% of this market, will grow between these years by approx. 6.7% per year; and machinery manufacturers, which account for approx. 11% of this market, will grow between these years by approx. 6.4%. The highest rate of growth according to the ARC Report is in the building control industry, which accounts for approx. 3% of the PLC market and is expected to grow between 2004 and 2009 by approx. 8.9% per year.

c. Geographical sectors: Examination of the geographical distribution of sales of PLCs around the world in recent years (according to the ARC Report) shows that, in general, about 44% of sales take place in Europe, the Middle East and Africa, about 20% in North America, about 18% in Japan, about 15% in Asia (mainly China and India), and about 3% in South America. Concurrently, economic growth and industrial development in certain regions of the world, such as China and Eastern Europe, in the field of establishing production capacity and local enterprises, and the increasing introduction of automation into such enterprises, give rise to expectations of higher growth rates in these regions. The ARC Report foresees an increase of approx. 14% per year in Asia (excluding Japan, for which only 3% growth is estimated) and an increase of approx. 17% in South America, while the growth rates in the rest of the world range between 3% and 4% (worldwide average 5.9%). The IMS Report estimates that towards the year 2007 the annual growth rate of sales of PLCs in China will reach approx. 20%, surpassing the expected growth rates in notable industrial countries such as Germany, the United States and Japan.

1.9.1.2 Standards

The manufacture and/or marketing of products in the field of control and automation is subject to various standards in different parts of the world, some of them general to the field of electronics and some more specific to the field of control. In this context the relevant standards are mainly EN-50081-1 and EN-50082-2 (for electromagnetic compatibility), European safety standards (such as the CE standard), and American and Canadian safety standards (such as the UL/cUL 508 standard).

Commencing 2005 new regulations came into effect in the European Union in connection with the issue of electronic waste under two complementary directives: (a) The WEEE Directive – which came into effect on August 13, 2005 and deals with the handling of the waste of electric and electronic equipment. The objectives of the directive are to prevent the creation of waste from electric and electronic equipment and to increase the scope of reclamation and recycling of such waste, by collecting the products, treating them, redesigning them so as to adapt them in advance for recycling, and marking them as electronic waste; (b) the Restriction of Hazardous Substances (RoHS) Directive – which is to come into effect on July 1, 2006. This directive limits the use of six substances in electric and electronic equipment that will be marketed in Europe after July 1, 2006, including lead (Pb), mercury (Hg), cadmium (Cd), etc. The restriction on the use of lead necessitates changes in the electronics industry throughout the world and causes a technological "revolution" in the field of soldering processes, which affects the components, the printed circuits and the solders (soldering alloys).

For details regarding compliance of Company products with these standards, see sections 1.28 and 1.29.3 below.

1.9.1.3 Technological changes

The PLC market is characterized by frequent technological developments, introduction of new products and technologies, and changes in market needs and requirements. The developments and innovations in the field of electronics, communications and computers also influence the control and automation industries, including a trend towards miniaturization of PLCs (smaller units that compete in terms of functionality and price with large units from previous generations), expanded use of communications (between PLCs, and between PLCs and the command computers and organizational systems, using available and widespread communications technologies such as Ethernet, Internet and cellular communications), and development of convenient, user-friendly interfaces. The Company designs its products in accordance with these trends, including miniaturization (up to palm-sized products), integration of convenient and user-friendly interfaces (such as color and touch screens) in the body of the PLC, and built-in communications capabilities as described in sections 1.10.1.1 and 1.12 below.

1.9.1.4 Barriers to entry and exit and success factors

The Company estimates that the primary entry and exit barriers to the PLC sector include, among others, the duration of the development processes of the technologies underlying the PLCs, the conservative nature of the target markets of these products, and the significant time spans and complex penetration processes related to the integration and/or replacement of a PLC in a specific machine or application.

The Company estimates that the primary success factors in the PLC sector include, among others, the availability of a range of products responding to market demand and trends, functional reliability of the products, competitive prices reflecting appropriate cost-benefit ratios, high level of image-building and customer loyalty-building service and support, and an extensive distribution infrastructure capable of providing an international response.

1.9.1.5 Competition

The PLC market is a highly competitive market. The Company's chief competitors are leading and well established companies. For details see section 1.16 below.

1.9.1.6 Anticipated changes in market volume and profitability

As stated above, the PLC market is subject to ongoing growth, and the various market surveys presented above indicate expectations of further growth in this market and its expansion into additional areas, involving lively competition which is likewise expected to grow in volume and also expand into various fields. The Company believes that a trend of transition can be characterized towards utilization of decentralized systems based on smaller PLCs. In the Company's opinion this trend arises, *inter alia*, from ongoing pressure on prices of PLCs. The above may, in the Company's estimation, cause a decline in profitability for companies engaged in this field (including Unitronics[1]), resulting from a decline in market prices of PLCs.

[1] The information concerning a possible decline in the profitability of companies engaged in the field of PLCs, including Unitronics, is forward-looking information. The principal facts and data which served as a basis for this information are those presented in several market surveys in this field as detailed in

The ARC Report foresees a decline of approx. 4.2% in prices in the PLC market until 2009 (taking into account, on a weighted basis, *inter alia,* an increase of approx. 0.5% in prices of nano PLCs, a decrease of approx. 0.2% in prices of micro PLCs, a decrease of 1.7% in prices of small PLCs, as well as other factors).

1.9.2 The logistic systems sector:

Below is a description of trends, events and developments in the Company's macroeconomic environment, which have or are expected to have a material effect on the Company's business results, and developments therein in the systems sector:

1.9.2.1 The sector's field of activity

The computerized and automated logistics systems sector includes automated warehouses, distribution centers with automatic elements (such as an automated warehouse), and conveying systems integrated in the organization's logistics system. The field of logistics systems has developed considerably in recent years, as part of the overall development trend in supply chain management and the continuity of logistics activities from the supplier to the end consumer. An additional cause of the increased demand in this sector in recent years is the need for increased efficiency, both in terms of the methods and means of storage and retrieval, and the management thereof, and in terms of the savings in the space and time required for storage and retrieval that generally accompany the transition to automatic logistics systems and distribution centers.

A market survey from October 2005 on the subject of supply chain management, conducted by ARC Advisory Group (summary accessible to the public on http://www.arcweb.com), estimates this global market at approx. $ 4.2 billion in 2005, while sales of warehouse management software (WMS) alone totaled approx. $ 1 billion in 2004.

1.9.2.2 Standards

The activities of the Company's systems department and certain of the components of the logistics systems in the construction of which it engages are designed in accordance with various standards, including standards on the subject of earthquakes, lifting devices, electrical devices, safety standards and conveying standards. For further details see sections 1.28 and 1.29.3 below.

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sections 1.7 and 1.9.1 above, in particular the data concerning the anticipated development of the PLC market, on the one hand, and the competitiveness in the sector and the competitors active therein, on the other hand, as well as the Company's assessment of a possible decline in the market prices of PLCs. The principal factors that are likely to prevent this information from being implemented are: market growth at rates different than expected; involvement on the part of the key players in this market that differs from that anticipated; and the development of sub-markets in the field of PLCs, with increased professionalism and focus by various producers on their own special niche areas, which could moderate possible price declines.

1.9.2.3 Technological changes

The field of automatic logistics systems too is characterized by frequent technological developments, introduction of new products and technologies, and changes in market needs and requirements. The developments in the control and automation world described above also affect conveying equipment and systems, in parallel with developments in the field of motion technologies and materials technologies. The Company is in the process of adapting the systems which it constructs and/or upgrades to the requirements of the market and to the technological changes taking place in it.

1.9.2.4 Competition

The construction of automatic logistics systems involves the integration of different disciplines including, amongst others, mechanical and engineering design, construction, supply and installation of mechanical conveying systems; design, development and installation of electrical and control systems; design, development, and installation of software systems; and coordination between all the entities participating in the construction of the system. In this sector as well the Company competes with several Israeli and multinational companies as described in section 1.16 below.

1.9.2.5 Anticipated changes in the scope of operations and profitability

As stated above, a market survey from October 2005 on the subject of supply chain management, conducted by ARC Advisory Group (summary accessible to the public on http://www.arcweb.com), estimates this global market at approx. $ 4.2 billion in 2005, with expectations for growth to approx. $ 6.6 billion in 2010 (about 9.2% per year). Another report of such company estimates total sales of warehouse management software (WMS) at $ 1 billion in 2004, with expectations for growth to $ 1.3 billion in 2009. According to ARC, recent years have seen intense merger and acquisition activity in the WMS systems sector.

The logistic systems market in Israel is a highly competitive market. The Company competes for each project against several companies from Israel and international companies who are leaders in their field. The market in Israel is relatively small, and there are many competitors vying for the few projects implemented in this field every year. Economic growth and a relative improvement in the economic situation in Israel, together with the increasing complexity of business activities which the automated logistics systems are designed to handle, should, in the Company's estimation, increase the number of projects implemented in Israel in this field, including the number of projects to be implemented by the Company[2]. However, at

[2] The information concerning a possible growth in the number of projects to be implemented in Israel in the logistic systems sector, including the number of projects to be implemented by the Company, is forward-looking information. The principal data which served as a basis for this information are: the assumption

the same time the Company estimates that owing to the extensive competition in this field, its profitability may be reduced in the future[3].

At the same time, the Company's Israeli installations base, which the Company believes to be broad as compared with its competitors, may assist the Company to provide more efficient service and technical support, and enhance its capacity to be chosen for implementing new projects of this type in the future.

1.10 Products and services

1.10.1 Company activity – products: The Company's main products include PLCs of various series, external expansion units and software programs:

1.10.1.1 PLCs and expansion units

The Company designs, develops, manufactures, markets, and sells several series of PLCs based on a central processing unit (CPU) for computer-embedded industrial systems that coordinates the range of command, control, and communications operations executed by the PLC. The Company's PLCs also incorporate an integral human-machine interface (HMI) component designed to enable the operator to control the PLC itself, and through it the instruments controlled and monitored by the PLC. This interface may differ from one product series to another in its nature and complexity, and it includes a data display (alphanumeric and/or graphic), a programmable keyboard and/or a regular keyboard and/or a touch screen. The PLC communicates with external components (such as the production devices themselves, engines or sensors) by means of built-in physical connections ("sockets" of sorts, similar to phone or computer sockets) intended for data input and output. The PLC's input/output capabilities (the number and type of devices that may be connected) define its

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that economic growth and a relative improvement in the economic situation in Israel, together with the increasing complexity of the business activities which the automated logistic systems are designed to handle, will impact on the demand in this field. The principal factors that are likely to prevent this information from being implemented are: lack of improvement in the economic situation in Israel and/or the world (or insignificant improvement) and/or failure of businesses to make investments, in general, and investments in automated logistic systems, in particular, notwithstanding a relative improvement in the economic situation, *inter alia* for reasons of cutting expenses and/or changes in inventory maintenance and/or management policies and/or delay or absence of market recognition of the advantage of automated logistic systems. Also, insofar as this information pertains specifically to the Company, other factors may prevent such information from being implemented, such as the Company's inability to compete with its competitors, and the other risk factors enumerated in section 1.39 below.

[3] The information concerning a possible decline in profitability in the systems sector is forward-looking information. The principal facts and data which served as a basis for this information are those presented in section 1.9.2.4 above concerning competition in this sector and the competitors active therein. The principal factors that are likely to prevent this information from being implemented are: involvement on the part of the key players in this market that differs from that anticipated and/or changes in the mix of software, hardware and mechanical components in logistic systems that affect profitability, as well as the development of sub-markets in the logistics systems sector, with increased professionalism and focus by various producers on their own special niche areas.

dimensions as a nano PLC, micro PLC, small PLC, medium PLC or large PLC. The PLC's I/O capabilities may be expanded using external expansion units, thereby upgrading its functioning (as described below). The Company's PLCs have been designed for compatibility with the different protocols of line and wireless communications, including by means of the Internet (remote control and access, from inside and outside the organization, by means of a computer, with no physical connection), intranet (PLC-PLC communications and/or PLC-computer communications within the organization), and by means of a cellular phone (access to information and/or to means of control without a physical connection and without a computer, using cellular phone infrastructures, e.g. by means of SMS messages or by transmitting files over various telecommunications networks, such as GSM, CDMA, GSM, CDPD and others). The communications capability of the PLCs is intended to enable command, control and monitoring of systems and processes, not only from the site in which the PLC is installed (production floor, logistics warehouse, etc.) but also from other stations, including the management offices or even from outside the organization's premises. The main series of PLCs and expansion units manufactured by the Company include:

a) Alphanumeric PLCs: nano/micro PLCs of the M90/M91 series: A palm-sized series of products, with an interface including 15 programmable keys and a mini liquid-crystal display (LCD), with one or two rows of alphanumeric characters and 16-38 integral I/O points, expandable to 96 additional I/O points using an external expansion unit (see below).

b) Graphic PLCs: nano/micro PLCs and small PLCs of the Vision™ series: A series of products with a graphic display and advanced communications capabilities, marketed at relatively low prices compared to similar products. This series includes the following PLCs:
   1) Vision230™ with an illuminated LCD screen including a graphic display, a 24-key programmable and adjustable keyboard, and expandable I/O points.
   2) Vision260™ with an enlarged illuminated LCD screen including a graphic display, a 33-key programmable and adjustable keyboard, and I/O points expandable up to 153 points using an external expansion unit (see below).
   3) Vision120™ with a palm-sized casing, a miniature illuminated LCD screen permitting graphic display, a 16-key programmable and adjustable keyboard, and expandable I/O points.

c) Graphic PLCs with a touch screen: PLCs of the Vision280™ and Vision290™ series: A series of products with an enlarged illuminated LCD screen permitting graphic display and operation using the screen (a touch screen), an operator's interface that is especially user-friendly (and also contains in the Vision280™ model a 27-key programmable and adjustable keyboard), and integral I/O points expandable to 153 points using an external expansion unit (see below). The enhanced calculation and data processing power of the PLCs of this series, together with their advanced display capabilities and their user-friendly characteristics, are designed to enable their use mainly for large and complex systems.

d) External expansion units: The Company develops and markets external In/Out expansion units designed to increase the I/O capabilities of the PLCs beyond their integral capabilities (by increasing the number of integral sockets) and thus to expand the array of tasks, processes, and devices managed, controlled and reported by them. The Company's external expansion units enable adding up to 128 I/O points to the integral points in the PLC. For example, the number of I/O points in nano PLCs can be increased by 96 points in addition to those built-in, and in micro PLCs by 128 points (a total of 153 points in these series), and thus to upgrade their functional capabilities on a par with those of small and medium PLCs, respectively. These expansion units are designed to increase the flexibility and compatibility of the various PLCs according to the varied and specific needs of each user, and also to aid in reducing the costs involved in the purchase, installation and maintenance of larger and more expensive PLCs and/or of larger numbers of PLCs.

The Company’s products are focused on a range of up to 153 I/O points. In the future the Company may extend its activities to include also larger PLCs permitting the operation of a larger number of I/O points, although as of the date of this report the Company has no specific plans or timetables in this regard.

1.10.1.2 Software programs

a. PLC software programs: The Company develops and markets, as a package together with its PLCs, software operating programs for PLCs, which may be used to program the operating interfaces of the PLC itself and its operation, as well as the command and control operations of the PLC with respect to the instruments to which it is connected. The Company's U90™ software serves PLCs of the M90/M91 series, and the Company's VisiLogic™ software serves PLCs of the Vision™ series. These software programs operate in the Microsoft Windows environment and are designed to permit those without professional programming skills to program, in an intuitive and accessible manner, both the operating interface of the PLC itself, at the operator's convenience, and the PLC tasks with respect to the system components in the machine or equipment that the PLC is intended to control. These software programs enable access to programming tools, including self-design or import of graphic icons, text messages, menus in various forms, and adaptation of the display to the varying conditions of the process being controlled.

In addition the Company provides programming tools for addressing additional needs, such as reading stored information from the PLC to electronic datasheets, connecting the PLC to communications networks, and remote control. The software package also includes a soft copy of the operating instructions, the

PLC software programs, documentation of the technical specifications of the product, and accompanying documentation data.

b. Programs for management of logistics systems and production floors: The Company develops and markets, as an integral part of the logistics systems which it constructs, and also as stand-alone products, software programs for management of warehouses, marketed under the name UniStock™, intended to enable command, control and management of automatic and/or manual storage systems (a program known in the industry as WMS – Warehouse Management System), including management of inventories, orders, issues and distribution, as well as operation and synchronization of the movements of automatic conveying systems and handling of mini-terminals (a program known in the industry as MFC – Material Flow Control). The Company also has a software program for management of production floors marketed under the name UniTrack™ (intended to enable command, control and management of production apparatus, including data collection from the production apparatus, processing of the data, and coordination of production resources). These software programs operate in the Microsoft Windows environment, under client-server architecture, and are designed to support several languages (including Hebrew) and communications with organizational ERP systems. These software programs can be installed and implemented as is, like any other application program, without the need for software modifications to accommodate unique needs, but it is also possible to customize them to the specific and unique needs of each user.

1.10.1.3 Trends and changes – products

The Company's products are focused mainly on micro and nano PLCs. This segment is characterized in the market surveys described above as the market segment with the most rapid growth rate. At the same time, this market segment is highly competitive and prices of products therein are continuously declining (see also section 1.16 below).

The Company invests in the development of new products designed to meet the changing needs of customers in the PLC market. These products replace and are intended to continue replacing the Company's older products that have been selling for the past five years or more in ever diminishing volumes, concurrently with the increase in the scope of sales of its new products. The average age of the Company's products in the products sector is only about three years, less than the average life span of PLCs in this market, a factor which the Company has included among its considerations in recent years as regards investments in R&D activity.

1.10.2 Company activity – systems: In parallel with its activity in the products sector, the Company also provides design, construction and maintenance services within the framework of projects for the automation, computerization and integration of computerized production and/or logistics systems, mainly automated warehouses and distribution centers.

1.10.2.1 Computerized production and/or logistics systems

The major components of logistics systems include the following:

a) Storage and retrieval components (a mechanical system, generally comprising customized controlled and computerized dedicated cranes installed on dedicated rails, that perform the storage, retrieval and conveying tasks).
b) A shelving system installed along either or both sides of the crane rails.
c) Conveying systems for transporting the loads to and from the automated storage system.
d) Command and control systems for the mechanical components of the logistics system, including PLCs, sensors and control software programs.

These services are provided by the Company's systems department, mainly to customers in Israel, and in a few cases also to customers outside of Israel. The Company generally provides these services as a principal contractor, in projects in which it serves as the integrator of all of the system components (shelving, conveyors, cranes, etc.), electrical systems, installation of the PLCs, the software and hardware, under a direct contract with the customer-user. In such cases the Company contracts subcontractors for the execution of tasks related to the system components, other than the software and PLCs, which are handled directly by the Company. In certain cases the Company operates as a subcontractor for specified tasks only, mainly related to the management software, the electrical systems and the supply and installation of the PLCs in the system for which service is provided.

The services of the systems department include the design and engineering of the systems, construction of new systems and/or upgrading and servicing of existing systems, up to the stage of commercial operation. After this stage the Company also offers maintenance services for these systems based on framework agreements or on call. The systems department also markets the Company's management software (the UniStock™ (WMS) software and the UniTrack™ software – see above), which are marketed under user licenses, mainly within the framework of projects for the construction of systems as described in this section. In the Company’s facilities in Airport City the Company maintains a technical office for providing service and maintenance for various systems installed by the Company's systems department, including a mechanical maintenance team, an electrical maintenance team, a control team, and a software team.

The services of the systems department are provided pursuant to agreements whose terms vary on a case to case basis but which generally incorporate a list of defined and detailed tasks, technical and functional specifications which the system that is being constructed will be required to meet, timetables (generally ranging from 3 to 15 months for constructing the system, depending on its complexity and other factors which vary from case to case) and milestone linked installments according to work progress. Under these agreements the Company is generally required to furnish guarantees (mostly bank guarantees) to secure performance of its obligations. As of the date of the report, the Company furnished bank guarantees as aforesaid for an overall cumulative sum of approx. NIS 9,077 thousand. The Company further undertakes to train the customer's employees to operate the system, and grants a 12-month warranty period on average for the major components of the system, which generally includes an undertaking to commence attending to certain malfunctions within predefined timetables, a commitment to provide service against payment at the end of the warranty period, and an undertaking as to the availability of spare parts for defined periods.

For the performance of certain of the tasks in accordance with these agreements (mainly the supply and installation of cranes, rails, conveyors and shelving) the Company generally hires specific subcontractors, mainly the German company SSI Schaefer Noell Gmbh (hereinafter: "**SSI**"), and others. The essence of the terms of the agreements with the subcontractors is, in most cases, assumption of the Company's commitments under the agreement with the customer (back-to-back), with respect to the system components to be supplied by the subcontractor.

1.10.2.2 Trends and changes – systems

The Company's services in the systems sector are focused mainly in the Israeli market. The Company has no statistical data and/or market surveys pertaining to this field in Israel. Based on its experience from recent years in its activity in this market, the Company believes there is a trend of increasing penetration of these technologies into various organizations in Israel, with the growth in the number of automated warehouses reported to have been installed in the Israeli market in recent years providing, in the Company's estimation, an indication of this trend. The Company estimates that various macroeconomic considerations, including real-estate costs, manpower costs, transportation considerations and the distance of the distribution centers from population centers, could strengthen the consolidation of automated logistics technologies in the Israeli market.

On the other hand, one of the significant attributes of this activity is the relatively large financial scope of a limited number of orders for services which are characterized as non-recurrent services. This attribute creates a high exposure of sales volumes and profitability in the systems sector, and in general, to the influence of a relatively small number of projects slated to be implemented in the Israeli market at any given time.

There are many companies operating in the automated logistics systems market, some of which do not have independent systems of their own for technical support and customer service (unlike the Company, as detailed below), a factor which helps them to compete with the Company's prices, given the lower cost basis and at times lower profit targets. The combination of these factors could have a detrimental effect on the Company's ability to compete in this sector and could significantly harm the Company's revenues and profits from the systems sector and in general.

Concurrently with the Company's activity in Israel in the systems sector, the Company is examining possibilities for strategic collaborations outside of Israel (in the first stage primarily in Europe), with a view to developing additional markets for the services of the systems department. This activity is in the initial stages and there is no certainty that the process will ripen into actual business activity, or regarding the terms of such activity and its effect on the Company, in the event that it materializes.

1.11 Revenue segmentation and profitability of products and services

The Company's revenues from its activity in the products sector amount to approx. 46%, 48% and 53% of its total revenues in 2005, 2004 and 2003, respectively. The various series of the Company's major products contribute to its profitability with no material differences among them.

The Company's revenues from its activity in the systems sector amount to approx. 53%, 51% and 47% of its total revenues in 2005, 2004 and 2003, respectively. The bulk of the revenues from this activity derives from customers entering with the Company into onetime transactions for the purpose of constructing one system only. The contribution to the profitability of the Company's operations in the systems sector varies from transaction to transaction, primarily according to the Company's status as a principal contractor (generally characterized by a greater financial scope and lower profitability, mainly due to requiring subcontractors), or as a subcontractor (generally characterized by a lesser financial scope and higher profitability, mainly due to the use of the Company's own resources), the technical and functional requirements specific to each transaction and the results of the negotiations with the customers in each individual case.

Below are details of the consolidated revenues and gross profit of the Company, in the products sector and in the systems sector, for the periods specified:

	Revenues from sales and services for the year ended December 31		
	2005	**2004**	**2003**
	In NIS thousand(*) (and percentage of total revenues/gross profit, approximated)		
Products (**)	37,201 (46%)	29,883 (48%)	21,181 (53%)
Gross profit (amount and rate)	18,989 (51%)	15,702 (53%)	10,359 (49%)
Systems	42,862 (53%)	31,263 (51%)	19,125 (47%)
Gross profit (amount and rate)	6,113 (14%)	5,886 (19%)	3,464 (18%)

(*) The figures for 2003 are in NIS thousand, adjusted to December 2003. The figures for 2004 and 2005 are in NIS thousand, as reported.

(**) In addition to whole products (PLCs and expansion units), the Company sometimes sells products together with certain components of PLCs and sometimes only parts and components (electronic cards, panels, individual components). In cases in which a product is sold together with additional components, their sale is included in the sale of the product. There are no significant differences in the method of sale, the demand, the production processes and/or the customer profiles, between the various series of the Company's products and/or in sales of whole products compared to components.

1.12 New products

The Company, through its R&D staff, engages in the development of new technologies and products and in the upgrading and improvement of existing ones. There is no certainty that the development of these technologies and/or products will be completed, or if completed, that a market will be found for them.[4] Below is a brief description of the major technologies and products in various stages of development in the Company.

1.12.1 WilCo™ (internal name) – command and control via decentralized PLCs: As of the publication date of the report, the Company's R&D activity includes a series of products designed to enable command and control by means of a network of decentralized PLCs linked together by physical and/or wireless communications, intended to allow flexible and modular configurations of industrial command and control facilities. The major elements of the system are as follows:

a. Wireless PLCs: PLCs with built-in wireless communications capabilities for short distances (in communications frequencies that do not require licensing), based on MESH topology (a communications network configuration in which all components are directly interconnected) or another communications topology. This network is designed to enable self-organization by the stations comprising it, so that when deployed each station identifies the other stations and identifies itself to them, independently and automatically.

b. D-Cent™ – centralized/decentralized command and control system: A central command and control system comprising separate units, each of which is itself a PLC, designed for its own operations without dependence on other PLCs, but which forms together with the other PLCs a virtual command and control network of points interlinked by physical and/or wireless media. These

[4] The information concerning completion of the development of these products and market recognition thereof is forward-looking information. The principal data which served as a basis for this information are: the development phases in which the technology stands as of the date of the report, which do not yet permit an indication of significant technological feasibility at competitive market prices; the need for further significant investments in R&D expenses, which there is no assurance that will be available to the Company at all or in the amounts required by it; and the need to educate the markets and the consumers in the use of decentralized PLC systems and/or the developed technologies. The principal factors that are likely to prevent this information from being implemented are: completion of development phases indicating a high probability of technological feasibility at competitive market prices; and the development of markets and a consumer culture suited to decentralized PLCs and/or to technologies developed by the Company.

systems are designed for complex applications suitable for several PLCs, without the user being required to program each PLC separately but only to perform central programming. The system of PLCs is designed to enable the allocation of tasks and definitions between the various PLCs comprising its different units, in an independent manner transparent to the user, as if it were a single PLC.

c) WebAx-Control™ – network access platform: A network access platform designed to enable the development of command and control applications using a PLC network without specific professional knowledge of programming or of communications networks. It is intended as an Internet-based means of communication between PLCs, that is user-friendly for the nonprofessional user and is intended to allow, amongst other things, sending messages and information in real time, transmitting files and data, loading and downloading of software programs as needed, and remote access.

The Company is progressing in the stages of development of the WilCo™ technology, and has completed several milestones that include, *inter alia,* various design activities and the development of subsystems of components of the technology. However, owing to the relatively low participation of the Chief Scientist at the Ministry of Industry and Trade in the funding of this development (see section 1.20 below), the Company decided to shift the focus of development efforts to other products (see section 1.12.2 below), while continuing to develop the WilCo™ technology at a slower pace[5]. Some of the development results of the WilCo™ technology are already being sold as modules for integration in the Company's existing products in order to enhance certain capabilities of those products, such as a card for expanded connectivity to Ethernet networks for PLCs from the Vision™ series. The Company submitted in September 2004 a patent application to the Patent and Trademark Office in the US, regarding certain features of the WilCo™ technology, as well as an application to register a patent in accordance with the international Patent Cooperation Treaty (PCT) (see section 1.21 below). The Chief Scientist at the Ministry of Industry and Trade participated in the funding of the development program related to this technology (see below).

1.12.2 Jazz ™ PLC series: As of the publication date of the report, the Company's R&D activity includes a series of products that will enable the Company to offer its customers smaller and lower priced PLCs than the existing ones. This series is planned to include palm-sized products with an interface comprising

[5] The information concerning completion of the development of components of the WilCo™ technology is forward-looking information. The principal data which served as a basis for this subject are: analysis of the actual progress in the development phases; analysis of the Company's capability to market these parts of the technology; and the potential for its penetration of the markets. The principal factors that are likely to prevent this information from being implemented are: the scope of investments required for this activity, which could significantly exceed the Company's budgets for these issues; limitations on the ability to commercialize these technologies at competitive market prices; and absence of development of markets and a consumer culture suited to the use of the developed technologies; all in addition to the general risks detailed in section 1.39 below.

programmable keys, a mini LCD screen, and a small number of integral I/O points. The first units from this series are due to be launched in the first half of 2006[6]. The purpose of this development activity is, *inter alia,* to expand the basket of Company products and permit its customers to purchase from the Company additional products that they are currently purchasing from the Company's competitors. The broader product line is also intended to contribute to the expansion of the Company's customer base by providing access to new potential customers.

1.12.3 Other products: The Company is concurrently engaged in the development of upgrades and improvements of PLCs and expansion units of its existing series of products, while striving to implement the conclusions drawn from an analysis of trends and feedback from distributors and customers around the world.

Among other things, the Company is developing, and plans to continue developing, similarly to the Jazz™ series described above, additional series of PLCs and/or new control products that will allow the Company to offer its customers PLCs in dimensions outside the existing range of Company products.[7] These products are planned to include, as stated, smaller products than the existing ones, as well as additional products that will enable the expansion of the Company's product line to include also larger products offering command and control solutions for larger and more complex systems than those for which the Company's existing products are intended. The purpose of this process is, *inter alia*, to expand the basket of Company products and permit its customers to purchase from it additional products that they are currently purchasing from the

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6 The information concerning the development of the Company's Jazz™ series is forward-looking information. The principal data which served as a basis for this subject are: analysis of the actual progress in the development phases; analysis of the Company's capability to market this series; and the potential for its penetration of the markets. The principal factors that are likely to prevent this information from being implemented are: the scope of investments required for this activity, which could significantly the Company's budgets for these issues; limitations on the ability to commercialize these technologies at competitive market prices or at all; and the absence of development of markets and a consumer culture suited to the use of the developed technologies; all in addition to the general risks detailed in section 1.39 below

7 The information concerning development of products in dimensions outside the Company's current range of products is forward-looking information. The principal data which served as a basis for this information are: development plans of the Company relying, *inter alia,* on an analysis of market surveys as detailed in sections 1.7 and 1.9 above; analysis of market needs and consumer preferences as reflected in the Company's direct contacts with the markets; technological feasibility; the Company's estimates as to the R&D costs entailed in implementing the developments; and the extensive competition in this field as detailed in this report. The principal factors that are likely to prevent this information from being implemented are: the scope of investments required in this activity, which could significantly exceed the Company's budgets for these issues; limitations on the ability to commercialize these technologies at competitive market prices or at all; the absence of development of markets and a consumer culture suited to the use of the developed technologies; and the superior financial and technological means available to a significant number of the Company's competitors; all in addition to the general risks detailed in section 1.39 below.

Company's competitors. The broader product line is also intended to expand the Company's customer base by providing access to new potential customers.

1.12.4 “Shelving” Company products: The Company is working to increase the level of “shelving” (turning a product into an off-the-shelf product) of the Company's management and control software programs used in the field of logistics systems (such as the UniStock^{TM} package), so as to significantly reduce the reliance on software adjustments specific to users’ needs.[8]

1.13 Customers

1.13.1 Company’s customers: The direct customers of the products department are mainly distributors connected to the Company by distribution agreements (see below). The end customers are generally manufacturers of PLC-controlled industrial machines intended for the automation of defined tasks such as packaging, for specific operations on production lines, etc. The machine manufacturer purchases PLCs suitable for the machine he is producing, installs the Company's PLCs in the machine, and markets it to his customers, who will integrate it in the production line or in other automatic applications that will be controlled and managed using the Company's PLCs. The end users of the Company's products are manufacturers of machines for a broad range of applications in various industries, including the plastics, textile, vehicle spare parts, food and petrochemical industries, etc. Other examples are the use of Company products for command and control of the use of energy, air conditioning, control systems in buildings, conveyors, security systems, etc.

The direct customers of the systems department are generally the end user, in most cases industrial and/or logistics businesses, generally in the private sector (although in a few cases these are customers from the public sector, including the defense forces), contracting the Company for a single system. The Company has no certainty of acquiring new customers in the systems sector of a certain scope or at all. Customers of the systems department generally retain the Company's services for designing one single new automatic system and/or constructing a system at the customer's site and to provide services and support for the system

[8] The information concerning projected changes in the management and control software programs and the ability to reduce reliance on software adjustments specific to users’ needs is forward-looking information. The principal data which served as a basis for this information are: analysis of market surveys as detailed in sections 1.7 and 1.9 above; analysis of market needs and consumer preferences as reflected in the Company’s direct contacts with the markets; technological feasibility; the Company’s estimates as to the R&D costs entailed in implementing the changes; and the extensive competition in this field as detailed in this report. The principal factors that are likely to prevent this information from being implemented are: the scope of investments required in this activity, which could significantly exceed the Company’s budgets for these issues; limitations on the ability to upgrade these software programs in the manner necessary for marketing them as an off-the-shelf product; and the superior financial and technological means available to a significant number of the Company’s competitors; all in addition to the general risks detailed in section 1.39 below.

after it is rendered operational. In certain cases the Company is retained for the servicing, improvement, upgrading, or enhancement of an existing system at the customer's site. The services of the systems department are currently provided mainly in Israel, to customers from numerous sectors, including food processing, pharmaceuticals, import/export warehouses, logistics centers, etc. In some cases the party retaining the Company is the principal contractor hired by the end user to integrate an entire system, who subcontracts to the Company's specific tasks only, such as the design of the system or the installation of PLCs in the system.

1.13.2 Principal customers: 10% or more of the Company's consolidated revenues in the periods detailed below derive from a limited number of customers who are, in terms of the products department, a distributor in a defined territory, and in terms of the systems department, customers ordering automated logistic systems who enter into a onetime transaction with the Company, the termination of which, including pursuant to the terms thereof, if not replaced by new customers making purchases on a similar scope, may materially harm the Company's revenues (the respective share of these customers is presented below both in terms of the products or the systems department, as the case may be, and in terms of the Company's general revenues):

	Revenues from principal customers for the year ended December 31					
	2005		**2004**		**2003**	
	Rate of total revenues (in percentage terms)					
	From sales of products/ systems department	From general Company sales	From sales of products/ systems department	From general Company sales	From sales of products/ systems department	From general Company sales
Customer A (products dept.)	10%	5%	10%	5%	10%	5%
Customer B (systems dept.)	2%	1%	11%	5%	75%	36%
Customer C (systems dept.)	20%	10%	33%	17%	0%	0%
Customer D (systems dept.)	38%	20%	23%	12%	0%	0%
Total sales of products dept. to department's principal customers	10%	5%	10%	5%	10%	5%
Total sales of systems dept. to department's principal customers	60%	31%	67%	34%	75%	36%

1.13.3 Agreements with principal customers of the systems department: As stated above, a significant proportion of the Company's revenues in the systems sector originates from a limited number of principal customers entering into agreements with the Company which are characterized as non-recurrent. Below are the main terms of the agreements between the Company and those customers accounting for 10% or more of the Company's consolidated revenues in the above periods, in addition to the general terms customary in such agreements as detailed in section 1.10.2 above:

a. Material agreement B: Under an agreement from November 2002 between the Company and principal customer B (Maman Cargo Terminals & Handling Ltd.), the Company undertook to design, develop, produce and install a system for the storage and conveying of cargo for a total sum of approx. € 3.1 million, plus VAT. With the customer's consent, certain of the guarantees provided by the Company for securing its obligations under the agreement were provided by SSI Schafer Noell GmbH (hereinafter: "**SSI**"), which served as a subcontractor of the Company within the framework of this agreement. The Company completed the installation of the system and the customer completed the payment of the full consideration in accordance with the terms of the agreement in 2004.

b. Material agreement C: Under an agreement from February 2004 between the Company and principal customer C, the Company undertook to design, develop, produce and install an automatic warehouse system in a pharmaceutical factory for a total sum of approx. € 3.3 million, plus VAT. In accordance with the agreement, the bank guarantees for securing the Company's obligations were provided by SSI, which serves as a subcontractor of the Company in this project. SSI further provided the customer with a personal bond for securing the Company's obligations under the agreement with that customer.

   As part of the subcontracting agreement between the Company and SSI, the Company undertook to furnish to SSI a personal bond against the personal bond furnished by SSI to the customer. In addition, mechanisms were agreed upon with SSI for the supervision and control of the consideration moneys (excluding VAT) to be paid to the Company according to the agreement with the customer, in order to secure the payments due to SSI from the Company.

   Installation of the system was completed in accordance with the terms of the agreement as amended by the parties, in the course of 2005, and this income was fully recognized.

c. Material agreement D: Under an agreement from July 2004 between the Company and principal customer D (Scope Metal Trade & Technical Services Ltd.), the Company undertook to design, supply and install an automatic logistics system in the customer's factory in Israel. The customer engages in the import, processing, manufacture and marketing of raw materials and metal products. According to the agreement the system is to be based on PLCs and additional software and command tools of the Company, as well as other assemblies and components to be supplied and installed directly by various subcontractors, under the Company's supervision. In accordance with the agreement, as revised from time to time after its signature (on the last occasion in January 2005), the cumulative amount of the contract (linked to the euro) is approx. NIS 23.5 million plus VAT, subject to work and equipment supplied, *inter alia,* by the subcontractors. Installation of the system was completed in accordance with the terms of the agreement with the customer in the course of 2005.

1.14 Marketing and distribution

The Company's products and services are marketed and sold through the Company's internal marketing infrastructure, a network consisting of over one hundred distributors (of which approx. 60 in the United States) in about fifty countries (including Israel) across Europe, Asia, South and Central America, North America and Africa, and a wholly owned subsidiary incorporated in the United States.

1.14.1 The Company's marketing infrastructure: The Company's internal marketing staff coordinates and guides the activity of the network of distributors of the Company's products, on an ongoing basis as well as at central events such as conferences, courses and training sessions held by the Company at its own facilities or at the distributors' facilities. The marketing personnel also maintain direct contact with current and prospective users of the Company's products and services, for the purpose of follow-up and feedback, nurturing customer relations and identifying business opportunities. The Company likewise maintains a technical support team consisting of several employees, each in charge of a desk covering several countries and providing pre-purchase support services for the purpose of purchasing the Company's products (mainly advice for the purpose of adjusting of products to meet the specific needs of each applicant) and post-purchase instruction and technical support for the purpose of assimilating the use of the products and/or handling problems. Applications to the support team usually originate from the Company's distributors, from direct end users and from indirect end users (who purchased the Company's products from distributors in Israel or abroad).

1.14.2 Distributors:

The Company's products are distributed through distributors in Israel; Europe (Austria, Belgium, Bulgaria, Croatia, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Holland, Hungary, Italy, Latvia, Lithuania, Luxembourg, Norway, Poland, Portugal, Russia, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, Ukraine and Yugoslavia); Asia and the Pacific (Australia, China, India, New Zealand, Singapore, South Korea, Taiwan and Thailand); South Africa; South and Central America (Argentina, Brazil, Chile, Columbia, Mexico and Peru) and North America (United States and Canada).

The Company's agreements with its distributors generally confer exclusive distribution rights in defined territories (subject to the Company's right to sell by itself and/or through subsidiaries and/or pursuant to an comprehensive agreement for installing a system), for limited periods (usually one year) renewable subject to performance of specified minimum sales. The distributors purchase Company products based on an annual purchase forecast provided by them in advance, usually according to the Company's price list, and sell them at their own discretionary prices. The Company generally grants its distributors 30 to 60 days' credit, and requires securities such as a bank guarantee or letters of credit (with the exception of the United States). The distributor is generally required to provide end users with a 24-month warranty, backed by the Company's commitment to the distributor for the same period of time. These agreements may generally be terminated at any time by a 30- to 90-day notice of either party, and they are generally governed by Israeli Law and subject to the jurisdiction of the courts in Tel Aviv and/or to an arbitration mechanism for settlement of disputes.

1.14.3 Material distributor: The Company's revenues from one of the distributors of its products constituted 5%, 5% and 5% of its general revenues in 2005, 2004, 2003, respectively. Under an agreement with that distributor from November 2001, it serves as exclusive distributor of the main series of the Company's PLCs in a defined territory, for a 12-month term, which is automatically extended by four additional terms of 12 months, subject to meeting certain minimum orders. According to the agreement the distributor is obligated to keep minimum quantities of stock, to provide a bank guarantee or a letter of credit to secure payment of its orders, to refrain from selling competing products during the term of the agreement (and in certain cases also for a limited period after the termination thereof) and to confidentiality during and after the agreement term. The distributor is further obligated to provide service during 24 months to customers who purchase the Company's products from it, against the Company's corresponding commitment towards the distributor. The agreement is mutually terminable in the event of breach and dissolution, and otherwise, by a prior 9-month notice.

1.14.4 Sales promotion: The Company promotes its sales primarily through: (a) a website for downloading software and other help tools for the Company's products, and for obtaining details about the Company, its products and services; (b) public relations and contact with the market and with current and prospective customers, including updates on innovations and developments in the Company, follow-up of satisfaction and/or lessons to be learned and for implementation, and similar activities; (c) marketing and sales aids and activities, including detailed marketing catalogues, continuous distribution of product updates and marketing material, use of demonstration kits at the customer's site and training sessions for customers and distributors; (d) participation in national and international exhibitions, whether directly or via the Company's distributors, and (e) advertising in professional publications in the industrial PLC sector worldwide.

1.15 Order backlog

As of December 31, 2003 the Company did not have an order backlog for the products department; as of December 31, 2004 the Company had an immaterial order backlog of approx. $ 624 thousand for the products department. As of December 31, 2005 the

Company had an order backlog of approx. NIS 6 million (approx. $ 1.3 million) for the products department, as detailed below. In general, the order backlog of the products department conforms to the Company's policy which is adjusted to the nature of the activity in this market, which is based primarily on purchases from stock and off-the-shelf from distributors.

	Product order backlog as of December 31, 2005
	In NIS thousand
Product order backlog for Q1 2006	3,801
Product order backlog for Q2 2006	1,886
Product order backlog for Q3 2006	395
Product order backlog for Q4 2006	123
Total	6,205

The product order backlog as of March 1, 2006 amounted to approx. NIS 6,030 thousand.

The sale of services of the systems department involves a long-term sales cycle, requiring a significant investment of time and effort, including participation in presentations and tenders, alongside other participants, the services themselves lasting several months (3-15) depending on the complexity of the system. Below are data on binding agreements in respect of the services of the systems department for the periods below:

	Agreements for the performance of services by the systems department as of December 31, 2005
	In NIS thousand
Services ordered for Q1 2006	9,070
Services ordered for Q2 2006	8,600
Services ordered for Q3 2006	2,060
Services ordered for Q4 2006	1,728
Total	21,458

Agreements for the performance of services by the systems department amounted as of March 1, 2006 to a total sum of approx. NIS 21,635 thousand.

1.16 Competition

1.16.1 To the best knowledge of the Company and based chiefly on the Frost & Sullivan Report, which lists about 70 companies defined as "key competitors", it is possible to define three categories of key competitors in the global market of industrial PLCs:

a. Market leaders, usually multinational companies active globally in multiple fields, including PLCs. This group includes, *inter alia*, companies such as Mitsubishi Electric Automation Inc., Rockwell Automation / Allen Bradley Company Inc., Siemens AG, Omron Corp., Schneider Electric and GE Fanuc.

b. Large multinational companies primarily engaged in PLCs. This group includes, *inter alia*, companies such as Yokogawa Corp., Koyo, Bosch Rexroth AG, Toshiba International Corp., Philips Components and Festo Group.

c. Smaller companies active in limited geographical areas or dealing in special niche products. This group includes, *inter alia*, companies such as Honeywell Safety Management Systems, Kim Controls, Horner Electric APG, B&R Industrial Automation and Pilz. The Company estimates that its activity in the products sector belongs to this category. The Company is not aware of other Israeli companies in this category.

In the systems sector the Company competes with several Israeli and multinational companies that offer services of design, installation, upgrading, and maintenance of industrial systems, mainly automatic warehouses and logistics systems, including companies from the Siemens, Swisslog, Beven and Viastor Groups. In the field of warehouse management software systems the Company has several competitors, most of them Israeli, including a company from the Matrix Group.

1.16.2 The Company is unaware of any statistical data to rely on in regard to consumption and/or sales of PLCs in Israel, and accordingly it is unable to estimate its share of the local market. As to its share of the global market, the Company estimates, based on accepted international market surveys in this field, including the ARC and Frost & Sullivan Reports, that its share of the global PLC market is less than one percent.

The systems market comprises an array of activities for the design, supply, installation and maintenance of logistics systems, including conveying systems and conveyors, various automatic storage facilities, sorting and distribution systems, and management and logistics software. Although the Company has no statistical data to determine the size of the Israeli market, it estimates that this market has in recent years ranged between $ 20-40 million a year. The Company estimates, based upon the forgoing, that its share of this market is between 15% and 30%.

1.16.3 The Company competes and intends to continue competing mainly on the basis of the advanced technology integrated into its products, and the cost effectiveness of its products as compared to that of its competitors (including the functionality of its products and their performance, reliability, portability, capacity for integration in existing systems, convenience and ease of installation, operation and maintenance, and the quality of the technical support and customer service provided by the Company). The Company believes that its products are positioned mainly as niche products (small products including nano and micro PLCs) that combine integral user interface capabilities and broad communications capabilities – characteristics which are particularly suitable for various decentralized applications and for integration as a control component for manufacturers of small and medium machines. However, there is no certainty that the existing or potential customers will regard the Company's products as more worthy than those of the competitors. Similarly, there is no certainty that its competitors will not develop products and technology that will render the Company's products obsolete or less competitive.

1.16.4 As emerges from the foregoing, the majority of the Company's competitors are larger and more established companies, with financial and other means which significantly surpass those of the Company, including R&D, marketing and sales resources, as well as a recognized name in the market. These competitors are able to react before the Company to changing market needs, and also to offer customers more flexible and convenient financing terms than those offered by the Company, thereby limiting the Company's ability to compete effectively. There is no certainty that the Company will successfully compete in this market, and its competitors may succeed in capturing some of its market share.

1.17 Seasonality

The Company does not identify in its areas of activity any significant seasonal pattern. Its products and services are consumed throughout the year without any fixed seasonal patterns.

1.18 Production capacity

1.18.1 In the products sector: Since 2001 the Company has expanded its utilization of subcontractors for its production activities and has reduced its in-house production activities, with the aim of reducing costs and improving timetables. The Company diverts to subcontractors mainly the manufacture of the plastic components in its products (such as the casings of the PLCs and the expansion units) and the automatic placement of about 98% of the components of the electrical circuits (PCBs). The Company itself assembles, using its staff and its facilities in Airport City, about 2% of the components of the electrical circuits, and generally performs by itself the final assembly of the product, its electrical testing, calibration, and packaging. The use of subcontractors to carry out most of the production stages is also intended to improve the possibilities of growth and flexibility in view of the high production capacity using existing subcontractors and the ability to add subcontractors as needed (subject to the learning and assimilation curve described below). Regarding production activities carried out in the Company, as of the date of this report this production capacity is being exploited to a large degree. The Company is able to increase its production capacity for these activities as needed, because of the possibility of directing to these tasks unskilled manpower that is therefore relatively available and requires only a short training period.

The Company generally has no written agreements with subcontractors for production, it is not bound by any framework arrangements with them and it hires their services as needed on an *ad hoc* basis. The business terms usually applicable between the Company and its production subcontractors consist of open credit without guarantees, payment on the basis of current month + 60 days, predefined delivery time (one to two weeks), and prices subject to quantity discounts. The Company's payments to the primary production subcontractor in 2003, 2004 and 2005 constituted 3.8%, 3.8% and 2.9% respectively of total Company expenses for raw materials and subcontractors in those years. Payments to other subcontractors in those years were on an insignificant scope per contractor. The Company is not dependent on specific production subcontractors and therefore can retain numerous and diverse contractors to that end. However, the replacement of an existing subcontractor with a new one might involve delays arising from a learning and assimilation curve with respect to the Company's needs and/or use of special production components adjusted to the Company's needs (e.g. molds for casting the plastic casings of the PLCs).

1.18.2 In the systems sector: Production capacity is in fact the Company's ability to implement logistics projects on of scope and at the times ordered, and is primarily based upon the Company's internal staff, whose number was significantly increased in the years 2002-2005 (as detailed in section 1.22 below), concurrently with a growth in the Company's activity in this sector. As of the date of the report the Company is fully exploiting this production capacity, taking into account existing agreements for the installation of logistics systems in the course of 2006. The Company adapts its production capacity in this sector (including recruitment and expansion of staff) in accordance with the agreements for the installation of logistics systems which are actually entered into from time to time.

1.19 Fixed assets and facilities

The principal fixed assets used by the Company comprise the Unitronics House at Airport City, where the Company's offices and its other facilities in Israel are located. The fixed assets further consist of computer systems, vehicles, laboratory equipment and office furniture.

1.19.1 Unitronics House – lease from the Israel Land Administration: The Company leases the ground floor (including basement) and first floor (hereinafter: the "**Company's Floors**") in the Unitronics House, covering an area (excluding basement) of approx. 1,600 square meters gross, and about one dunam (1,000 square meters) in an adjacent plot serving as a parking lot for the Unitronics House. Under an agreement from August 23, 2000 with Airport City Ltd. the Company acquired a capitalized lease right (91%) in the Company's Floors for 49 years, to be registered in its name not later than November 2007. As of the date of the report the Company's rights have not yet been registered with the Israel Land Administration. The Company's rights in the Unitronics House serve as security for the funding received by the Company for acquiring its rights in the building as detailed in section 1.26.3 below. The balance of the depreciated cost of the Company's Floors as of December 31, 2005 is approx. NIS 19,312 thousand. In its ongoing activity the Company uses all areas of the Company's Floors in the Unitronics House. The remaining floors in the Unitronics House (floors 2 to 4) are leased from the Administration by a company controlled by the controlling shareholder of the Company who also serves as the Chairman of its Board of Directors and CEO (hereinafter: the "**Private Floors**"), and are let to third parties, apart from approx. 632 square meters which are let to the Company (as detailed below).

1.19.2 Unitronics House – lease from a controlling shareholder: In addition to the Company's Floors which are utilized by the Company in full, as of August 2004 the Company rents approx. 196 square meters on the Private Floors, at terms identical to those at which areas on the Private Floors are let to third parties, which also reflect generally accepted rental terms in Airport City. The lease is for a term of three years, with an option for the Company to extend it for two additional terms of 12 months each. The rent is $ 12.5 per square meter per month (plus management fees to Airport City at $ 1 per square meter per month, and management fees at $ 2 per square meter per month to the Company's subsidiary, Unitronics Management, with respect to the management of the Unitronics House), subject to a 4% increase at the end of every two years of lease. The Company may terminate the agreement at any time subject to the introduction of a substitute tenant acceptable to the lessor. In view of the expansion in the Company's commercial activity in the ordinary course of its business, and further to the recruitment of additional manpower and the growth in activity, an actual need has developed to expand the areas from which the Company operates. Therefore, in August 2005 the Audit Committee and the Board of Directors of the Company resolved to approve an amendment to the lease agreement from August 2, 2004, pursuant to which the Company is to rent from the lessor, effective from August 1, 2005, an additional 436 square meters at the same terms (for details see section 4.8.2 below).

1.19.3 Unitronics Inc.: The subsidiary, Unitronics Inc., rents offices near Boston, Massachusetts, covering a total area of approx. 1,521 square feet (approx. 141 square meters), let for a 12-month term until March 2007, for annual rent of approx. $ 35,000.

1.19.4 Computer systems: The Company owns a system of computers and peripheral equipment which it uses for its current activities, in the various applications required by it for design, development, production, marketing and current operations. Amongst other things, this equipment includes an array of servers, workstations, security and protection systems, backup systems and various communications infrastructures. The system infrastructures are designed to permit a certain degree of flexibility for future growth in the volumes of activity.

ERP (Enterprise Resource Planning) software is installed at the Company, which is used concurrently by the Company's purchase, production and inventory systems, together with finance management and bookkeeping, management of customer relations and orders, project management, service and maintenance management and so forth. The Company holds licenses unlimited in time for use of this software, not subject to any payment (apart from payments made as part of installation and adaptation of the software for the Company's purposes, and other payments in the event of the addition of users and/or upgrades).

In the field of MicroSoft operating systems and MicroSoft Office products, the Company holds licenses for use on an annual basis in the framework of which it receives ongoing version updates and upgrades. In other fields the Company holds licenses to use the various software programs and software tools installed in its computers at customary terms in the field.

1.20 Research and development

For details regarding products and technologies under development, see section 1.12 above. Below are the main details concerning sums expended by the Company during the periods detailed below on R&D activities:

	For the year ended December 31		
	2005	2004	2003
	In NIS thousand (*)		
Salaries and related expenses	3,837	3,111	2,184
Subcontractors	286	172	509
Other expenses	1,525	1,251	609
Less contribution of Chief Scientist	(40)	(365)	(247)
Total R&D expenses	5,608	4,169	3,055

(*) The financial data for the year 2003 are in NIS thousand adjusted to December 2003. The financial data for the years 2004 and 2005 are in NIS thousand as reported.

During 1992 to 2005 the Chief Scientist at the Ministry of Industry and Trade (hereinafter: the "**Chief Scientist**") participated in the funding of the Company's R&D plans under the Encouragement of Industrial Research and Development Law. 5744-1984 (hereinafter: the **"R&D Law"**). Below are details of the plans approved by the Chief Scientist's office and which are in progress and/or still bind the Company:

Subject of plan	Date of approval	Approved R&D expenses	Percentage of grant	Amount of grant	Performance period under the letter of approval

Four plans for previous generation PLCs whose sales constituted an immaterial percentage of the Company's revenues in 2003 and 2004	1997 - 1992	NIS 4,695,535	30%-50%	NIS 1,888,221	1997 - 1992
Wilco™ PLC	July 1 2003	NIS 1,644,268	40%	NIS 657,707	May 1, 2003 to Apr. 30 2004

The Company is required to pay royalties to the Chief Scientist at a rate of 2% to 5% of sales of products developed with the Chief Scientist's assistance, up to repayment of the total grants (and in respect of grants received starting from January 1999 – plus interest at LIBOR rate). Under the terms of the Chief Scientist's participation in the funding of the WilCo™ series development, the Company is required to pay royalties on sales of products from the WilCo™ series as well as on its revenues from other products using the WilCo™ technology.

The letters of approval are conditioned on compliance with the provisions of the R&D Law and the regulations and rules pursuant thereto, and on performance of the R&D plans as described in the applications and within the performance period, while reporting and obtaining approvals with respect to changes in holdings and controlling means in the Company, as well as transfer of controlling means in the Company to a foreign resident or a foreign company. In this framework the Company is subject to further restrictions, such as refraining from overseas production of products based on technology developed with the assistance of the Chief Scientist, and from the transfer of such technology overseas or to third parties, except with the approval of the Chief Scientist. Up to December 31, 2005 grants to the Company under these plans were approved in a total sum of NIS 2,473 thousand. From 1992 to 2005 the Company paid royalties to the Chief Scientist in a total sum of NIS 116 thousand (of which approx. NIS 25 thousand from 2001 to 2005). The balance of the Company's liabilities to the Chief Scientist for royalties as of December 31, 2005 is approx. NIS 2,397 thousand.

1.21 Intangible assets

1.21.1 General: The Company claims copyrights and usage rights with respect to certain technologies, know-how, trade secrets and trademarks. There is no certainty as to the scope of such protection or the degree to which the Company is protected on the basis of such claims. The Company holds no registered intellectual property rights, and it has registered no patent, trademark, copyrights or other intellectual property rights (apart from applications for patents and trademark registrations as detailed hereinafter). There is no certainty that the Company's applications will be granted or that any patent or trademark will actually be registered pursuant to such applications; likewise, there is no certainty as to the scope or degree of the protection, if any, which the Company will enjoy by virtue of any patent or trademark that may be registered, if at all, nor is there any certainty that competitors will not develop technology and/or products that compete with the Company.

The Company protects its trade secrets and intellectual property rights primarily through confidentiality agreements with its employees and consultants, and certain of its customers. There is no certainty that these means afford adequate protection and they cannot protect the Company against competing developments that may be independently developed by third parties.

1.21.2 Patent applications: In September 2004 the Company filed a patent application with the United States Patent and Trademark Office with respect to certain features of the WilCo™ technology (see above), further to the filing of a provisional patent application in September 2003. The Company filed concurrently an application for registration of a patent under the international Patent Cooperation Treaty (PCT). As of the date of the report no patent has been registered pursuant to these applications.

1.21.3 Application for registration of trademarks: In August 2004 the Company filed with the United States Patent and Trademark Office an application to register the name "Unitronics" and the Company's logo as trademarks. In December 20, 2005, these trademarks were published for allowing objections, during a period of 30 days. Until the end of such period no such objections were filed. As of the date of the report these trademarks have not been registered pursuant to said applications.

In July 2005 the Company filed with the European Union Trademark Office an application to register the name "Unitronics" and the Company's logo as trademarks. As of the date of the report these trademarks have not been registered pursuant to said applications.

In December 2005 the Company filed with the Israeli Registrar of Patents, Designs and Trademarks an application to register the name "Unitronics" as a trademark and service mark. As of the date of the report this trademark has not been registered pursuant to said application.

In December 2005 the Company filed with the United States Patent and Trademark Office an application to register trademarks on the name "Jazz" and its design (logo), which serve as the name of a new product family of the Company as detailed above. As of the date of the report these trademarks have not been registered pursuant to said applications.

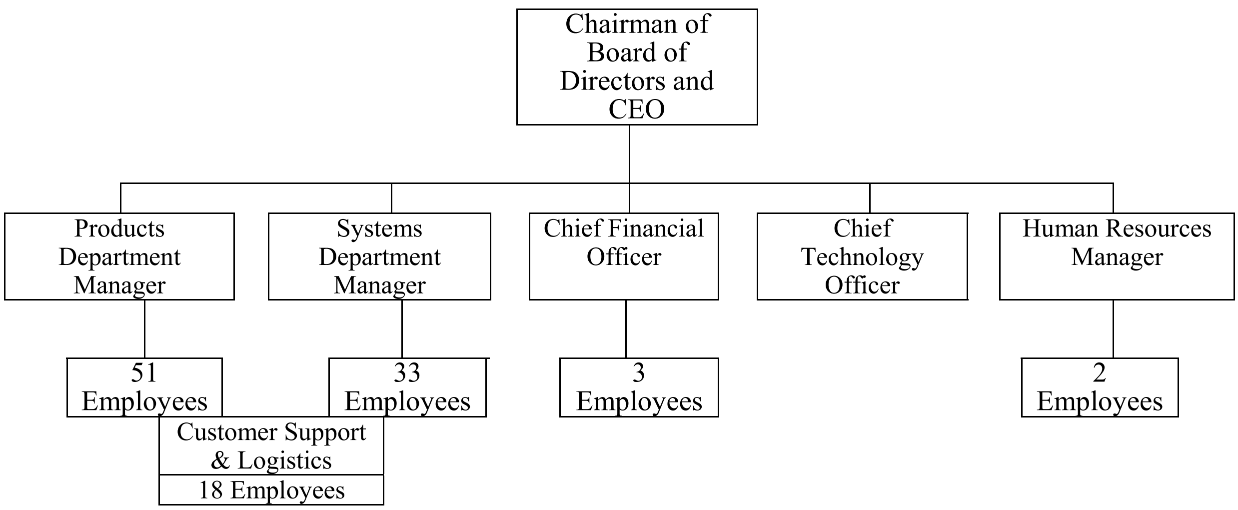
1.21.4 Domain names on the Internet: The Company purchased rights to use domain names under which it presents information about itself, its products and related matters. The Company uses these names as website addresses intended for communication with existing and prospective customers. In accordance with accepted practice, the Company is entitled to continue using these sites exclusively so long as it pays annual usages fees (in immaterial amounts) to the company maintaining the site. The domain names used by the Company are as follows:

unitronics.net	unitronics.co.il	unitronics.com
webplc.org	webplc.net	webplc.com
	oplc.net	unitronic.com
unitronics.fr	unitronics.co.at	unitronics.co.be
unitronics.bg	unitronics.co.cr	unitronics.co.cz
unitronics.co.dk	unitronics.ec	unitronics.fi
unitronics.gr	unitronics.hk	unitronics.ie
unitronics.it	unitronics.jp	unitronics.kz
unitronics.lv	unitronics.lt	unitronics.md
unitronics.com.pe	unitronics.ph	unitronics.ro
unitronics.se	unitronics.com.ua	unitronics.co.ve

1.21.5 Expenses: In 2005, 2004, 2003 the Company expended approx. NIS 110, 61 and 16 thousand, respectively, on the acquisition and preservation of its intellectual property.

1.22 Human capital

1.22.1 Organizational structure: The controlling shareholder of the Company, Mr. Haim Shani, serves as the Company's CEO and as Chairman of its Board of Directors. Several senior professional officers are subordinate to the CEO as set out in the chart below, in the fields of technology, finance and human resources. The Company's commercial activity is performed by the products department and the systems department, each headed by a senior professional officer who is subordinate to the CEO. Below is the organizational structure chart of the Company and the number of employees employed by it as of the date of the report according to the organizational structure:



1.22.2 Company employees and their breakdown: As of the date of the report the Company employs 113 employees in Israel; the subsidiary Unitronics Inc. employs 5 employees (without written personal employment agreements), and the subsidiary Unitronics House Management & Holdings (2003) Ltd. does not employ any employees. Below is the breakdown of the Company's employees in Israel at present according to area of activity:

Area of Activity	No. of Employees
Marketing and sales	12
Research and development	28
Administration	11
Production, logistics and quality control	33
Integration and support	29
Total	113

As of December 31, 2004 the Company employed 92 employees in Israel, the subsidiary Unitronics Inc. employed 3 employees, and the subsidiary Unitronics House Management and Holdings (2003) Ltd. did not employ any employees. As of December 31, 2003 the Company employed 61 employees in Israel, the subsidiary Unitronics Inc. employed 2 employees, and the subsidiary Unitronics House Management and Holdings (2003) Ltd. did not employ any employees.

The Company nearly doubled its workforce between the years 2003 to 2005 as detailed above, in line with the growth in its activity and in order to provide for its business plans. The main increase in manpower was in the fields of research and development, integration and support, and marketing and sales, in accordance with the emphasis during those years on activity in research and development, the growth in the Company's activity in the logistics systems sector and the expansion of the Company's marketing and support channels.

1.22.3 Terms of employment: Most of the Company's employees work on the basis of written personal employment agreements, incorporating customary obligations as to confidentiality, noncompetition and guarding of the Company's intellectual property rights. The Company's liabilities in respect of employee termination benefits are partly covered via contributions to senior employees insurance policies. For the balance of the liabilities an appropriate provision is made in its financial statements.

Employment relations between the Company and its employees are governed by the provisions of the general collective agreement applicable to the metal, electricity and electronics professions by virtue of an extension order. The provisions of the collective agreement pertain in substance to maximum working hours, minimum wages, provisions to pension funds, cost-of-living increments (according to the consumer price index), various insurances (in the event of sickness or work accidents), dismissal, severance pay and other provisions pertaining to terms of employment. The Company generally provides terms of employment which are equal to or better than the minimum terms specified in the collective agreement.

From time to time the Company grants its employees options to purchase its shares under the option plans it adopted (for details see sections 4.10.3 and 4.10.4 below). Except as stated in section 1.22.4a below, the Company is not obligated to grant options to any of its employees, and in practice options are granted by the Company's Board of Directors according to management recommendations and at its sole discretion.

1.22.4 Officeholders and officers of the Company:

a. The Company has personal employment agreements with Mr. Haim Shani (controlling shareholder and Chairman of the Board of Directors) and with Ms. Bareket Shani (Mr. Shani's wife, who also serves as a member of the Board of Directors), up to December 2008, subject to extension for additional periods of five years each. Pursuant to the agreements Mr. Shani serves as the Company's CEO and Ms. Shani serves as Deputy CEO and Human Resources Manager. Under the agreements Mr. and Ms. Shani are entitled to: (a) a monthly salary in the sum of $15,000 and $7,500, respectively; (b) options in a quantity not less than 115% of the quantity granted to the most senior employee in the Company after Mr. Shani and Ms. Shani, respectively, subject to all approvals required under any law; (c) customary social benefits such as senior employees insurance (contributions of 5% of monthly salary by the employee and 13.33% by the Company), continuing education fund (contribution of 2.5% of monthly salary by the employee and 7.5% by the Company), use of Company car and reimbursement of expenses; (d) annual vacation of 30 days which may be accumulated over a period of two years only. Termination of the agreement with Mr. Shani is subject to approval of 75% of the directors and to prior notice of at least 6 months. Mr. Shani may terminate the agreement for any reason whatsoever subject to 3 months' prior notice. With respect to Ms. Shani, each party may terminate the agreement by a 2-month notice, and the Company will be required to provide a substantive explanation for the dismissal, if initiated by it. Mr. Shani and Ms. Shani agreed (voluntarily) to a decrease of 5% in their wages for a period of 12 months as of January 1, 2003. On April 12, 2005 the general meeting of the Company's shareholders approved the payment of a special bonus to Mr. Haim Shani, as compensation for his contribution in general to the Company's successful activity in recent years, and specifically for the Company having registered net profit in such year. The cost of the bonus to the Company amounted to approx. NIS 400,000. In addition the general meeting of the Company's shareholders approved a framework transaction pursuant to which Mr. Haim Shani is to receive an annual bonus for each calendar year starting from 2005, for as long as he is employed as the Company's CEO (hereinafter: the **"Future Bonuses"**), within 30 days from the date of approval of the financial statements by the Company's Board of Directors in respect of every such calendar year, at a rate of 7.5% of the pretax profit in that year (cost to the Company) (hereinafter: the **"Framework Transaction"**). The Future Bonuses are to be paid within 30 days from the date of approval of the financial statements by the Company's Board of Directors in respect of every such calendar year, and approval of their conditions by the Audit Committee and the Board of Directors as consistent with the conditions set in the above Framework Transaction. On March 27, 2006 the Audit Committee and the Board of Directors approved the payment of a bonus in the amount of NIS 52 thousand to Mr. Haim Shani in respect of 2005 in accordance with the conditions of the above Framework Transaction.

On March 27, 2006 the Audit Committee and the Board of Directors approved an amendment to the employment agreement between the Company and Mr. Haim Shani, according to which the payment of Mr. Shani's present salary, amounting (as detailed above) to a total gross monthly salary of $15,000, plus the Future Bonuses (hereinafter: the **"Overall Salary"**), will be divided such that a part of the Overall Salary will be paid by the subsidiary Unitronics Inc., and the balance of the Overall Salary will be paid by the Company, in respect of his services as its CEO, provided that the aggregate cost to the Company (on a consolidated basis) of Mr. Shani's salary shall not exceed the cost of the Total Salary. Since the above division of Mr. Shani's salary does not entail additional salary costs to the Company, the Audit Committee and the Board of Directors have determined that the amendment has the capacity of only crediting the Company (for details concerning the amendment, see immediate report pursuant to regulation 1(2) of the Companies Regulations (Benefits in Respect of Transactions with Interested Parties), 5760-2000, dated March 27, 2006).

The Company is materially dependent on the continued services of Mr. Haim Shani. The loss of Mr. Shani's services could adversely affect the Company's financial results.

b. The Company's Deputy CEO and Products Department Manager is entitled, under his employment agreement, in addition to fixed wages, to a bonus at a rate of 3.5% to 5% of the annual growth in sales of the Company's main PLCs (less commissions of certain third parties).

c. The Company's Vice President and Systems Department Manager is entitled, under his employment agreement, in addition to fixed wages, to a bonus at a rate of 4% of the Systems Department's operating profit (but not more than $30,000), subject to meeting a minimum operating profit, and to an additional bonus at a rate of 3% of the net profit of the Company up to a net profit of one million dollars and at a decreasing rate according to the increase in the net profit above that amount, up to a bonus at a rate of 0.5% of a maximum net profit of $ 5 million.

d. The Company's Chief Technology Officer (VP) provides services through a service company under his control, against management fees in a fixed amount. The management company is obligated to pay contributions for social benefits in respect of his employment and all mandatory payments under any law, and to compensate Unitronics for any loss or damage incurred by it due to a determination that employer-employee relations exist between the service provider and Unitronics. The service provider personally guarantees the service company's obligations.

1.22.5 Company's investments in training and instruction: The Company holds internal courses for employees of the various departments, primarily in the field of safety at work. These courses are given by the security officer in the Company's facilities, as part of his position and the cost of his wages. In addition, the Company holds, as part of the international marketing activities and support for its distributors, professional courses for distributors and regional sale representatives. These courses are provided by the Company's support teams, at the facilities of the distributors overseas, and include familiarization with new developments and improvement of know-how in the operation and marketing of existing products. In the United States regional courses are occasionally held, to which sales representatives and distributors from neighboring states are invited. The costs of such courses are included in the Company's marketing and sales expenses, including the cost of the wages of the support and marketing personnel taking part therein; the Company does not record a separate budget designated for such expenses.

1.23 Raw materials and suppliers

1.23.1 Company products may incorporate about 80-250 mechanical and electronic components, including electronic circuits and their components, keyboards, alphanumeric and/or graphic display screens, and others. About 88% of the components in most of the products are standard (off-the-shelf) products, manufactured inside or outside Israel and can be purchased from various suppliers that can be replaced without any changes to the product. The Company is not dependent on a single source for the supply of these raw materials. About 6-7% of the components in most of the Company products are custom made for it in accordance with a specification and/or plan, mainly plastic casings, keyboards, printed circuit boards (PCBs), various connectors, metal parts and touch layers in the touch screen. Although these components are of major importance in Company products, they may be ordered from several suppliers/manufacturers inside and outside Israel, in most cases without need of any product adjustments, and there is consequently no dependence on a single supplier/manufacturer. However, in some cases (about 4% of off-the-shelf components in most Company products), although they may be purchased from several suppliers, their replacement by new suppliers is liable to cause delays (of up to three weeks) resulting from the alternative supplier's learning and assimilation curve with respect to the Company's needs.

Regarding a small number of items that represent about 1-2% of the components in most of the products (representing immaterial amounts in purchases in the years 2003, 2004 and 2005), although these are off-the-shelf components that could be purchased from suppliers inside or outside Israel, there is a dependence on a single manufacturer for the supply thereof (the manufacturer of one item is Infineon

Technologies AG, a member of the Siemens AG group, and of another item – WizNet of the Samsung group). Although such components may be installed in Company PLCs even if made by other manufacturers, this might involve structural and functional changes and various modifications of the hardware and software that are liable to cause delays and customizing costs. In order to reduce this dependence the Company enters into annual orders, and in a few cases minimum stock maintenance agreements, with several different suppliers, in order to ensure availability and continuous supply of these components. The Company has no sole supplier of raw materials from whom it purchases 10% or more of the annual cost of its raw materials and subcontracting services.

1.23.2 The Company generally has no written agreements with suppliers of raw materials, it is not bound by framework arrangements with them (save for annual orders and certain minimum stock maintenance agreements as detailed below) and it orders materials as needed, on an *ad hoc* basis, generally against purchase orders only. The commercial terms generally applicable to the raw materials suppliers are open credit without guarantees, payment on the basis of current month + 60 days (after approval by acceptance control), predefined delivery time (sometimes including an option for the Company to change quantities and/or schedules), prices subject to quantity discount, delivery and transport at the supplier's expense and the supplier's warranty for replacement of goods, at its expense, in the event of incompatibility or quality problems.

In a few cases (raw materials originating from a single producer) the Company enters into a minimum stock maintenance agreement with certain suppliers, under which the supplier undertakes to maintain stock at a certain percentage of the Company's annual consumption (adjusted on a quarterly or a monthly basis), exclusively earmarked for supply to the Company at set prices. Under these agreements the Company is obligated to purchase the minimum stock even if not ordered or upon termination of the agreement (except for items whose price has increased). These obligations are for amounts that are immaterial to the Company. Several of these agreements are unlimited in time, and the termination of activity thereunder in respect of particular items is subject to prior notice.

1.24 <u>Working capital</u>

1.24.1 <u>Inventory</u>: The Company holds on a regular, ongoing basis about 60-75 days of components and raw materials inventory for forecast requirements for a period of about two months. In addition, the Company holds a finished products inventory for supplying current orders for some 30-60 days. Company policy is generally to hold a finished products inventory based on actual orders or on internal forecasts made and updated on a regular basis by the Company. The Company may deviate from this policy from time to time, mainly when preparing for extraordinary events or in response to the behavior of the raw materials markets in the world (for example, in cases of fear of possible temporary shortages of electronic components throughout the world and/or limited allocations of components by the component manufacturers in certain cases of excess demand). The Company estimates that its spare parts inventory is sufficient to supply the needs of its customers. The Company manages the production processes, purchasing of raw materials, raw materials inventory and finished products inventory through a general management program that concurrently serves the Company's procurement, production, and inventory systems, and this alongside financial management and accounting (ERP – Enterprise Resource Planning). The Company has no policy regarding the return of products and has not yet been required to deal with this. The Company is currently looking into different possibilities for the reorganization of inventory preservation methods, including setting up of distribution centers in various places worldwide, so as to assist the various distributors and customers, and to facilitate the access to Company products[9].

1.24.2 Customers: The Company generally provides a warranty for its products for periods ranging between 12 and 48 months. The Product Department customers generally enjoy 30 to 60 days' credit. As to its Systems Department, the Company generally provides a warranty for the main system assemblies of 12 months on average. Customers of the Company's Systems Department generally are extended up to one month's credit in respect of each payment.

1.24.3 Scopes of credit: Below are data on average scopes of suppliers' credit on a quarterly basis, as well as subcontractors' and customers' credit in 2005:

	2005	
	Average scope of credit in NIS thousands	Average credit days
Customers (products)	4,045	40
Customers (systems)	3,136	27
Suppliers (products)	2,993	92
Suppliers (systems)	286	11
Subcontractors (products)	586	82
Subcontractors (systems)	3,979	74

1.25 Investments

[9] The information regarding the reorganization of inventory preservation methods is forward-looking information. The principal data serving as a basis for this information are several market surveys and academic theories concerning the various inventory preservation possibilities and their effect on the sales volume. The principal factors that are likely to prevent this information from being implemented are: the opposition of distributors and/or customers to changing the inventory method, high costs entailed in implementing the change, including the need to make various investments (such as the acquisition of distribution centers abroad) regarding which there is no assurance that they will be available at all to the Company or in the required scope for implementing the change, and obtaining additional opinions regarding the effects of said changes on the sales volume.

In the reported year the Company did not make any investments in investee companies, partnerships and ventures that are not subsidiaries.

1.26 Financing

1.26.1 The Company's activity is financed from the Company's equity and from external financing sources. The Company's external financing sources (in NIS thousands) are as follows (the data below also include the amounts of the special purpose loan specified in section 1.26.2 hereunder):

Type of Credit	**As at December 31, 2005**	
	Scope of Credit NIS thousand	Interest
Short-term bank credit (current account)	1	9.25%
Long-term bank credit (dollar)	5,524	Libor+2.02%
Long-term bank credit (shekel)	5,528	Libor+2.02%
Index-linked leasing loans	517	6%-11.23%
Convertible bonds (dollar-linked)	33,908	Libor**+2.5%
Convertible bonds (euro-linked)	4,548	4%

** Libor for 6 months

The Company has current credit facilities (excluding the credit for financing the acquisition of the Company's rights in the Company's Floors as detailed below) totaling some NIS 12,800 thousand, of which around NIS 9,077 thousand have been utilized, primarily in respect of providing bank guarantees to secure the Company's liabilities under agreements in the systems sector as aforesaid, and unexploited balances totaling some NIS 3,723 as of December 31, 2005 and as of the date of the report. Since December 31, 2005, the Company has not taken any credit of a substantial scope. In accordance with the terms of one credit facility out of these facilities from a bank in Israel (amounting to some NIS 5 million), the Company has undertaken neither to create nor to undertake to create pledges on its assets without this bank's consent, so long as this bank is due any sums on account of such credit. This credit facility is up to August 31, 2006 only, unless the bank agrees otherwise. Another credit facility from among these facilities was given by another bank in Israel (in the overall amount of some 1,309 euro (which are around NIS 7,400 thousand) for providing guarantees for the fulfillment and performance of a contract for the supply of an automated logistics system to a customer in Israel, against a deposit the Company holds in its account in this bank, and so long as an advance payment guarantee, given this customer against the remittance of an advance payment, is in force. There is no assurance that these credit facilities will be renewed or that substitute credit facilities will be extended to the Company, under similar terms or at all. Likewise, within the framework of the credit documents between the Company and part of the banks in Israel, the bank's consent is required in the event of certain changes in the Company's shareholders.

1.26.2 The acquisition of the Company's rights in the Company's Floors in the Unitronics House was financed primarily through a credit facility totaling NIS 13,735 thousand extended to the Company by the Industrial Development Bank of Israel Ltd. (hereinafter: the "**Industrial Development Bank**"), in accordance with the funding terms agreed between the parties on July 12, 2000.

On December 29, 2005, the Company repaid in full the remainder of its debt under the credit facility extended to it in 2000 by the Industrial Development Bank, in the overall amount (as of the above due date) of NIS 11,000,000 (eleven million shekels) (hereinafter: the **"Previous Credit Facility"**) (for further details regarding the Previous Credit Facility, see section 1.26.2 in the Company's periodic report for 2004). This repayment was effected by using two new loans extended to the Company by Bank Leumi LeYisrael BM (hereinafter: "**Bank Leumi"**) on December 29, 2005 (a loan totaling 1,015,000 euros and a loan totaling 1,200,000 U.S. dollars; hereinafter: the **"New Credit Facility"**).

Under the terms of the New Credit Facility from Bank Leumi, repayment of the loans will be spread over a period of 12 years from the date of the loan for the entire amount (as compared to the Previous Credit Facility, for which half the amount was due for payment in July 2006, and the remainder for payment within 10 years), plus interest at the rate of Libor + 2.02% (as compared to Libor + approx. 2.50% under the Previous Credit Facility).

The balance of the debt to Bank Leumi as of the date of the report, in respect of financing the acquisition of the rights in the Company's Floors is approx. NIS 11,052 thousand.

1.26.3 In the framework of financing the acquisition of the Company's Floors, on August 22, 2000 the Company pledged, by a first degree fixed charge and floating charge, its rights in the Unitronics House, documentary instruments and securities deposited and/or to be deposited at the Industrial Development Bank, and rights in guarantee funds, in accordance with the Sale (Apartments) (Securing Investments of Apartment Purchasers) Law, 5735-1974. In the framework of the pledge, the Company undertook, *inter alia*, to insure the pledged assets and keep them insured at their total real value, to preserve and attend to the pledged assets, and not to make any disposition therein (including any charge or pledge) without the Industrial Development Bank's consent, save the sale of current assets in the ordinary course of business and not to allow any change in the composition of the holders of the Company's share capital compared with the status that existed on the date of the pledge, without the Industrial Development Bank's consent.

On December 28, 2005, the pledges imposed in favor of the Industrial Development Bank as detailed above for securing repayment of the debt under the previous credit facility were removed (for further details regarding the above pledge, see section 6.8.1 of the Company's Prospectus from May 12, 2004). Concurrent to the removal of the above pledges, Bank Leumi is attending to registering a new pledge in favor of Bank Leumi under conditions similar to those of the pledge removed, for securing repayment of the debt under the New Credit Facility.

The trustee for the benefit of the holders of the Bonds (Series 1) issued by the Company under the Israeli Prospectus (see Section 1.30.4 below) granted his consent to the above changes in the securities granted by the Company for securing repayment of the New Credit Facility.

1.27 Taxation

1.27.1 Tax benefits under the Encouragement of Capital Investments Law, 5719-1959 (in this section: the "**Law**"): The Company is entitled to various tax benefits under the Law by virtue of its status as an "Approved Enterprise", as follows:

a. In June 2000 the Company received approval for an investment plan under an alternative benefits program from the Investments Center, the essence of which is an investment totaling $108,000 for expansion of the Company's plant for production of PLCs, subject to the terms of the approval (in summary, at least 30% of the investments in fixed assets to be financed by additional paid-up share capital, implementation of a marketing plan detailed in the Company's letter, including maintenance of sales volumes under the same plan, compliance with intellectual property laws and submission of reports to the Investments Center and to the tax assessing officer as required by law). In December 2001, the Company received approval for a supplement to this plan in the sum of $257,000, such that investments in the plan would total approx. $ 365,000. The date for implementation of the plan was up to June 2002, and was extended up to September 2002. A final execution report was submitted in April 2003. In February 2004, the Company received a confirmation in respect of implementation of the plan, certifying that it had complied with the plan's terms, except for the marketing terms during the years 2001-2003. The Company estimates that, by the time the benefit under the plan becomes relevant, it will also meet the terms of the marketing plan.

b. In January 2003 the Company received approval for another investment plan under an alternative benefits program, the essence of which is an investment in the amount of $683,600 for expansion of the Company's plant for production of PLCs, subject to compliance with the terms of the approval (in summary, at least 30% of the investments in fixed assets to be financed by additional paid-up share capital, compliance with intellectual property laws and submission of reports to the Investments Center and to the tax assessing officer as required by law). The approved date for implementation of the plan is up to January 2005. In August 2005, the Company submitted a final execution report for this plan. According to the report, the requested year of operation (the base year for the benefits period) is 2004, and the Company reported that it had implemented by the end of 2004 cumulatively, the entire actual investments program (approx. 99%), of a total of approx. NIS 1,257 thousand, in manufacturing equipment only. The Company further reported that during 2004 it had increased its revenues by approx. NIS 20 million as compared to 2003 (a growth rate of approx. 38%, according to VAT reports). In September 2005, following an audit made at the Company, the Company received confirmation from the Engineering Department, certifying that investments were made during the period; however, as of the date of the report, the Company had not yet received a final confirmation certifying that it had met the plan's terms.

c. The base year for the benefits period under the first plan is 1999 and has not yet been determined for the second plan. As of the date of the report, the benefits under either the first or the second plans have not yet been utilized.

d. The benefits to the Company under the Law are primarily a reduced tax rate: during the benefits period (7 years from the year in which the Company first has taxable income from the Approved Enterprise), the Company's income from the Approved Enterprise is exempt from corporate tax for the first two years and subsequently, its income from the Approved Enterprise will be subject to corporate tax at a rate of 25% (or less, according to the rate of foreign holdings in its shares), provided that a period of 14 years from the issuance of the letter of approval or 12 years from the year of operation has not elapsed, whichever is earlier. The tax benefits will apply to the growth in turnover beyond the turnover in the base year. A dividend paid out within the benefits period from the monies attributed to the Approved Enterprise is subject to a reduced tax rate of 15%. A cash dividend from the Company's revenues deriving from the approved plan, in respect of which the Company was entitled to a tax exemption, will be subject to a corporate tax rate of 25%.

1.27.2 <u>Measuring results for tax purposes under the Income Tax (Adjustments for Inflation) Law, 5745-1985</u> (in this section: the "**Adjustments Law**"): the Company is assessed under the Adjustments Law, according to which the results are measured for tax purposes on a real basis, taking into account the rise in the index.

1.27.3 The Encouragement of Industry (Taxes) Law, 5729-1969: The Company is an "industrial company," according to this term's meaning in the above law. By virtue thereof, the Company is entitled to tax benefits such as the deduction of issue expenses for tax purposes when listing shares on the stock exchange and the deduction of patents and know-how acquired from third parties.

1.27.4 Tax rates on income not deriving from the "Approved Enterprise": Company income not deriving from the Approved Enterprise as aforesaid, and the income of the subsidiary, Unitronics Management, are subject to tax at the ordinary rate of 34% (2006 – 31%, 2007 - 29%, 2008 - 27%, 2009 - 26% 2010 and onward – 25%).

1.27.5 Tax assessments: The Company has tax assessments which are considered final up to and including the tax year 2001. No final tax assessments have been issued yet for the subsidiaries Unitronics Management and Unitronics Inc. since the date of their founding.

1.27.6 Carry forward losses: The balance of the Company's carry forward losses for tax purposes as of December 31, 2005 amount to about NIS 27,000 thousand. No deferred taxes have been recognized for such losses.

1.28 Environmental issues

As detailed in section 1.9.1.2 above, the WEEE (Waste from Electric & Electronic Equipment) Directive 2002/96/EC came into effect in the European Union on August 13, 2005. The provisions of this directive impose on the manufacturers of electric and electronic equipment the responsibility of handling the product at the end of its life cycle, for the purpose of reuse, recycling and even the disposal of certain components. The legislation requires the manufacturers of electronic equipment to register, report and mark the products, and imposes on them the responsibility for everything pertaining to the collection and recycling of the products. The WEEE Directive is a guideline of the European Parliament for the member states in the European Union, to apply its provisions as framework directives. This directive is not binding on the Union's citizens themselves; only the internal legislation in each and every member state is the binding one. In actuality, the application of the European legislation in each and every country is done, for the most part, with each country giving it a different interpretation. Likewise, the framework directive establishes a minimum threshold of requirements; however, each and every country may, at its discretion, enhance the requirements. In actuality, there is ambiguity regarding the application of this directive, due to the differences between the internal legislations of the EU's member states, particularly in the matter of timetables for assimilation, registration systems, marking requirements and collection infrastructures in the various countries, and even in the interpretation of the definition of a "manufacturer" (e.g.: according to one interpretation, the first importer who introduces a product into Europe's countries is considered a "manufacturer").

Company products include PLCs and expansion units (as detailed in section 1.10.1.1 above), which are defined as electric and electronic equipment, and as such are subject to the WEEE Directive. The chief implications of the Directive's applicability are the requirements to attend to the product at the end of its life cycle, for the purpose of reuse, recycling and even disposal of certain components.

The Company is following the implementation of the directive in the various countries through its distributors, as well as through professional consultation, participation in conferences and updated professional literature. In certain countries, such as Germany, the products are marked as required in accordance with the local standardization in conjunction with the distributor in that country. The Company's assessment is that when the exact requirements in each and every country become clear, it will be able to prepare itself by means of the appropriate marking, by means of collection and recycling arrangements with its distributors and/or in any way that will suit the statutory requirements in each country[10].

1.29 Restrictions on and supervision of the Company's activity

1.29.1 Business license: The Company's activity in the Unitronics House at Airport City requires a business license under the Business Licensing Law, 5728-1968. In June 2004 the Company received a business license for its plant at Airport City from the Business Licensing Department at the *Hevel Modi'in* Regional Council.

1.29.2 Work safety: The Company has a safety officer at its facility, in charge of compliance with the work safety provisions. The Company holds annual training courses for employees of various departments on work safety issues.

1.29.3 Standardization and quality control: Company PLCs from the M90/M91 and Vision™ series, as well as some of its external expansion components, comply with the EN-50081-1 and EN-50082-2 standards for electromagnetic compatibility (the functioning of electronic components in an environment of electromagnetic radiation). Accordingly, the Company marks these products with the CE marking. Most of the Company's PLCs from the M90/M91 series, the Vision™ series, and a substantial part of its external expansion components comply with the requirements of the UL/cUL 508 standard (safety aspects, including fire, temperature resistance, and electrical safety). Accordingly, the Company marks these products, and products largely based on them, with the UL/cUL marking. The Company operates a lab for checking the proper functioning of finished

[10] The information concerning the completion of the Company's preparations for complying with the WEEE Directive is forward-looking information. The principal data serving as a basis for this information are the interpretation known to the Company today regarding the Directive's implementation, the technical steps needed for its implementation, and the Company's collaboration with its distributors in this matter. The principal factors that are likely to prevent this information from being implemented are diverse interpretations in the various countries respecting implementation, or the lack of cooperation on the distributors' part in realizing the implementation, and the financial means needed for the Directive's implementation, for which there is no assurance that they will be available to the Company at all or in the scope required for the implementation.

products, including mechanical and operational properties, and software components. This lab maintains contact with other test labs in Israel and abroad.

As detailed in section 1.9.1.2 above, the Company is working concurrently on implementing the European Union's RoHS (Restriction of Hazardous Substances) Directive, which restricts the use of six substances in electric and electronic equipment to be marketed in Europe after July 1, 2006. The restricted use of these substances, particularly lead, necessitates changes in the entire electronics industry worldwide, effectively causing a technological "revolution" in the field of component production, soldering processes, which affects the components, printed circuits and solders (soldering alloys).

Company products include PLCs and expansion units (as detailed in section 1.10.1.1 above), which are defined as electric and electronic equipment, and as such are subject to the RoHS Directive. The chief implications of the Directive's applicability are the requirements to use RoHS-compatible components (free of lead and the other substances), including printed circuits (produced worldwide for many years using lead) and other casing materials, as well as to render the soldering processes RoHS-compliant (use of appropriate soldering pastes and alloys, adaptation of the temperature profiles of the soldering processes, and so on).

In the course of 2005, the Company invested a great deal of resources and effort, totaling an estimated $170,000 (around 4 man years), in order to implement this directive, by employing several engineers full-time to find those components in the Company's products that are not RoHS-compliant and replace them with compliant components, to purchase RoHS-compliant components, and to define the production processes, including the soldering, for RoHS-compatibility purposes. At the same time, there is a dependence on the readiness of the electronic components vendors to supply compliant components. Nevertheless, the Company estimates that it will complete its preparations on time[11].

The activities of the Company's systems department in the supply, installation, maintenance, and upgrading of transport systems, automated warehouses, and control systems, comply with the requirements of ISO 9001, version 2000. Some of the components of the logistics systems constructed by the Company's systems department, are designed in accordance with various standards, including Israeli Standard IS 413 on the subject of earthquakes (regarding the structure of the warehouse and the shelves array); standards on the subject of hoisting facilities

[11] The information concerning the completion of the Company's preparations for complying with the RoHS Directive is forward-looking information. The principal data serving as a basis for this information are the engineering stages in the development and implementation of the directive, which the Company has reached as of the date of the report, and the budgetary burden as a result of the need for continued investment in R&D expenditures, for which there is no assurance that they will be available at all to the Company or in the required scope. The principal factors that are likely to prevent this information from being implemented are the failure to complete the engineering stages needed to complete the implementation, as well as the dependence on the components and assemblies vendors, who are also required to meet these requirements.

such as IS 1202 (hoisting facilities – steel cables, for cranes and elevators); and standards on the subject of electrical installations and other safety standards. The compliance of Company-constructed systems with these standards' requirements is generally checked by professional inspectors, independent of the Company, who test each system individually, as part of the processes for completing the system, for delivery to the customer. In Israel there are also specific standards for transport systems that are defined by the European Manufacturers Association in the transport equipment sector, which, among other things, define the functionality of installations and systems.

Compliance with the above standards is a binding legal requirement for the purpose of marketing the Company's products and services in some of the Company's target markets, while in others it is a market demand although not a formal legal requirement. There is no assurance that the Company will succeed in complying with the requirements applicable to its products and services, so as to conform to these standards or any other standards, where required, and failure to comply with said standardization will limit the Company's ability to market its products in some of its target markets.

1.29.4 Ministry of Defense: The Company has the status of a recognized supplier for the Ministry of Defense, as a manufacturer, marketer and service provider in the field of automated warehouses, since November 25, 2002.

1.30 Material agreements

1.30.1 Agreements detailed above: The agreements referred to in sections 1.4.2, 1.13.3, 1.14.3 and 1.22.4 (a) above constitute material agreements of the Company. In addition, the agreements detailed in this section 1.30 are material agreements of the Company.

1.30.2 Acquisition of rights in the Company's Floors in the Unitronics House: On July 23, 2000 the Company entered into an agreement concerning the purchase of rights in certain floors in the Unitronics House, as detailed in section 1.19.1 above, under the financing terms specified in sections 1.26.2 and 1.26.3 above.

1.30.3 Underwriting agreement: The Company entered into an underwriting agreement on May 11, 2004, regarding the securities offered by the Company under the Israeli prospectus. The underwriting agreement formalized the underwriters' obligations with respect to the distribution and underwriting of the securities and their commissions (and refund of expenses), which totaled approx. NIS 4,172 thousand. Under the agreement, the Company has undertaken to indemnify the underwriters for any amount they may be charged under a judgment or settlement to which the Company has agreed (and the expenses thereof), due to the inclusion of a misleading detail in the prospectus, including anything likely to mislead a reasonable investor or due to the deficiency of any detail in the prospectus that is likely to be important to a reasonable investor, or as a result of any claim the grounds for which arise or derive from the prospectus, save information provided to the Company in writing by an underwriter to be used for the preparation of the prospectus.

1.30.4 Bonds (series 1): The Company issued under the Israeli Prospectus NIS 35,000,000 par value bonds (series 1), registered in the holder's name, of NIS 0.02 par value each of the Company, payable (principal) in 4 equal annual installments on May 23 of each of the years 2007 to 2010 (inclusive), linked (principal and interest) to the representative rate of the US dollar and bearing interest at a variable rate of LIBOR + 2.5% per annum. The bonds are convertible into Ordinary Shares on any trading day up to May 9, 2010 (inclusive), save from the 10^{th} to the 23^{rd} of May of each of the years 2007 to 2009, such that any non-paid-up NIS 9.00 par value bonds (series 1) are convertible into one Ordinary Share of the Company (subject to adjustments). The bonds (series 1) were issued under the Israeli Prospectus at 95% of the par value thereof.

On May 12, 2004 the Company contracted with Deloitte Touche (Israel) Brightman Almagor Trusts Ltd., as trustee for the bonds offered under the Israeli Prospectus. The trust deed includes provisions as to the Company's refraining from creating additional charges on its assets beyond the existing ones without the trustee's consent, the trustee's authority concerning waiver, settlement, amendments to the trust deed, declaring the bonds immediately due and payable, convening meetings of bondholders, and concerning the proceedings at meetings of bondholders, voting at such meetings, indemnification of the trustee, replacing the trustee and expiry of the trustee's office.

1.30.5 Option instruments (series 1): The Company issued under the Israeli Prospectus NIS 1,000,000 option instruments (series 1), registered to the holder's name, exercisable into Ordinary Shares on any trading day up to May 23, 2008 (inclusive), such that any option warrant (series 1) is exercisable into one Ordinary Share of the Company, against cash payment of the exercise price of NIS 7.55, linked to the representative rate of the US dollar. The option instruments (series 1) were issued under the Israeli Prospectus without consideration. Following publication of the Prospectus, an additional 300,000 option instruments (series 1) were issued as detailed in section 1.4.4 above.

1.31 Collaboration agreements

As of the date of the report, the Company is not a party to strategic cooperation agreements, nor has it any entitlements under such agreements.

1.32 Legal proceedings

1.32.1 Dispute with IMO

Unitronics has become involved in a dispute with IMO Jeambrun Automation SAS (hereinafter: **"IMO"**) of France, which in August 2004 acquired the business of Unitronics' exclusive distributor in France, after the latter was declared insolvent.

In April 2005 Unitronics submitted to the court in Israel an application for the appointment of an arbitrator to examine IMO's contentions against the termination of the contract with it following the delivery of 6 months' notice, and a parallel application for leave to serve process outside the territorial jurisdiction. A hearing in the matter was held in February 2006, in which it was decided that IMO waives its arguments of lack of international jurisdiction and would argue only against the application to appoint an arbitrator, which is scheduled to be heard in June or July 2006. In view of the complexity of the case and since the parties' witnesses have still not been examined, it is not yet possible to estimate the chances of the case.

Subsequent to the application to appoint an arbitrator submitted in Israel, IMO submitted in France two claims against the Company:

- One, for enforcement of the execution of orders for products – This claim was heard in summary procedure and dismissed on the merits in a judgment from June 7, 2005 (IMO appealed the decision, and a hearing has been scheduled for September 2006.) In view of the complexity of the case, it is not yet possible to estimate its chances.

- The second claim is a financial claim for more than € 1 million, in respect of Unitronics' termination and alleged breach of the agreement and unfair competition. A hearing in the claim was held in February 2006, in which Unitronics argued that the court lacks jurisdiction. The court is expected to hand down a decision within several months. In view of the complexity of the case, it is not yet possible to estimate its chances.

In September 2005 Unitronics filed a claim in the court in Israel against IMO Precision Controls Ltd., which is IMO's parent company, and against its owner, Sir Morris Hatter, as well as its manager. In this claim Unitronics is suing the defendants for € 1 million in respect of bad faith conduct in the IMO purchase, as regards relations with Unitronics, knowledge of the existing agreement between Unitronics and IMO, and termination of the relations with Unitronics. In addition, Unitronics is suing on causes related to the defendants' attempts to gain control of the French market. The claim was served on some of the defendants, and no statement of defense has been submitted as yet. At this stage it is not possible to evaluate the prospects of the claim.

1.32.2 Dispute with Samy Gharb

In January 2006 the Company through counsel in the United States filed a claim in the US court against a private individual who approached several distributors of the Company in the United States and in Europe with claims that by marketing the Company's products they are infringing a registered patent of his. In this claim Unitronics is petitioning the court to declare that the defendant's registered patent in the United States is invalid and that Unitronics' actions do not infringe the defendant's intellectual property rights. Unitronics in addition is claiming from the defendant a sum of not less than US$ 1 million in respect of damages which it incurred due to the defendant's actions, chiefly his applications to Unitronics' distributors in the United States. The defendant did not submit a statement of defense within the stipulated time, and in light of this fact the Company is asking the court to rule in its favor. At this stage it is not possible to evaluate the prospects of the claim.

1.33 Objectives and business strategy

1.33.1 In the products sector: The Company strives to position itself as a world leader in the field of control and automation products, in niches and markets in which its products have added value and a relative advantage. These niches include, amongst others, the fields of nano and micro PLCs, PLCs incorporating a control panel, small PLCs incorporating communications and network support of networks, and PLCs supporting decentralized architecture. Target market segmenting (for further details see sections 1.7 and 1.9 above) pinpoints mainly manufacturers of small and medium machines that require economical, advanced and integrated control solutions, as well as constructors of systems that require solutions for remote control and/or data collection by communications. Criteria for evaluating success in achieving these objectives include, amongst others, number of installations (PLCs sold) every year, rate of penetration (sales) in new and existing countries and territories, customer satisfaction, percentage of repeat sales to these customers, and overall contribution of the products sector to the Company's profitability.

In order to realize these objectives, the Company plans to continue improving existing products as well as developing new products, on the basis of continuous analysis of users' needs and market trends, market surveys conducted from time to time, as well as responses from its distributors and customers.[12] The Company

[12] The information concerning improvement of existing products and development of new products is forward-looking information. The principal data which served as a basis for this information are: analysis of market needs and consumers' preferences as reflected through the Company's direct contacts with the markets, technological feasibility, and costs of potential developments as well as the strong competition in this field as detailed in this report. The principal factors that are likely to prevent this information from being implemented are: the scope of investments required to finance this activity, which could significantly exceed the Company's budgets for these issues; limitations on the ability to develop these technologies and difficulties in their commercialization; and the superior financial and technological means available to a significant number of the Company's competitors, which could help them to compete

further plans to continue developing and strengthening the international marketing infrastructure which it set up, *inter alia* through continued supervision and follow-up of the activity of existing distributors, identification of new distributors in new territories, or, where it is necessary to replace an existing distributor, professional training and instruction for distributors on subjects related to the Company's products, and gathering of relevant information.[13] Another element is striving to increase customer satisfaction and loyalty through efforts to sell quality products and backing them up with suitable support and maintenance services.

The Company concurrently plans to continue from time to time examining business opportunities in Israel and worldwide, which may allow enhancement of its operations both in terms of marketing and from the technological aspect. There is no certainty as to the terms of realization of such opportunities and/or whether they will be available to the Company at all. The Company is also looking into possibilities of reorganization of stock inventory preservation methods, as detailed in section 1.24.1 above.

1.33.2 <u>In the systems sector:</u> The Company strives to position itself as a leader in the field of automated logistics systems in Israel and to expand its activity in this field overseas via export of its capabilities and its technologies. Criteria for evaluating success in achieving these objectives include, *inter alia*, number of installations (systems constructed with its participation) annually in Israel and overseas, quantity and volume of sales of technologies and management products to customers and other entities overseas with which the Company collaborates in operations in this field, satisfaction of customers and the business entities with which the Company interacts, and the overall contribution of the systems sector to the Company's profitability.

In order to realize these objectives, the Company plans to continue improving the level of "shelving" (turning into off-the-shelf products) of the management and control software programs for logistics systems developed by it, and to continue developing and improving these products on the basis of continuous analysis of market trends, market surveys conducted from time to time, and responses from customers and business entities with which it interacts.[14] The Company further

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more successfully with the Company.

[13] The information concerning development and strengthening of the Company's marketing infrastructure in the products sector is forward-looking information. The principal data which served as a basis for this information are: analysis of characteristics of marketing and markets of the services provided by the Company's systems department as conducted by the Company from time to time, and the increasingly evolving nature of PLCs as off-the-shelf consumer products, as detailed in this report. The principal factors that are likely to prevent this information from being implemented are: the strong competition in this field; possible difficulties in identifying appropriate distributors having ability and experience in the area of the Company's products and willing to enter into distribution arrangements with the Company under the terms customary at the Company.

[14] The information concerning improvement of existing products and the development of new products in the systems field is forward-looking information. The principal data which served as a basis for this information are: analysis of market needs and consumers' preferences as reflected through the Company's

plans to continue developing and strengthening the marketing infrastructure of the systems sector in Israel and the business development activity *vis-à-vis* overseas entities with which there is a potential for collaboration in the systems sector outside Israel – in the initial stage mainly in Europe.[15]

The Company concurrently plans to continue from time to time examining business opportunities in Israel and worldwide, which may allow enhancement of its operations both in terms of marketing and from the technological aspect. There is no certainty as to the terms of realization of such opportunities and/or whether they will be available to the Company at all.

1.34 Development forecast for the upcoming year

The Company estimates that it may be difficult to maintain the rate of growth in sales which has characterized recent years. In order to keep up the growth in sales in the Company's sectors of activity, greater investments will be required than in the past in R&D and in marketing, in order to enable it to present to existing and other, prospective customers more competitive and efficient products designed to provide an appropriate answer to those offered by the Company's competitors.

In the products sector, the Company intends to continue developing, amongst other things, additional series of PLCs and/or new control products, as detailed in section 1.12 above.[16] In the systems sector the Company intends to continue directing additional resources to marketing activities and the penetration of specific export markets, with a view to expanding the scope of its target markets for these activities, in order to reduce its dependence in this regard on the Israeli market. Concurrently, the Company plans to continue during 2006 with the development and strengthening of its marketing infrastructure for the systems

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direct contacts with the markets, technological feasibility, and costs of potential developments as well as the strong competition in this field as detailed in this report. The principal factors that are likely to prevent this information from being implemented are: the scope of investments required to finance this activity, which may significantly exceed the Company's budgets for these issues, limitations on the ability to develop new technologies and to commercialize them at competitive prices in the field, as well as superior financial and technological means available to a significant portion of the Company's competitors.

[15] The information concerning the development and strengthening of the Company's marketing infrastructure in the systems sector is forward-looking information. The principal data which served as a basis for this information are: analysis of characteristics of marketing and markets of the services provided by the Company's systems department as conducted by the Company from time to time, and the protracted and complex process of sale of these services, as detailed in this report. The principal factors that are likely to prevent this information from being implemented are: the strong competition in this field, and the need to identify appropriate distributors and/or prospective collaborations with appropriate business entities having capability and experience in the systems sector.

[16] The information concerning development of new products is forward-looking information. For details regarding the principal data which served as a basis for this information and those that are likely to prevent this information from being implemented, see section 1.12 above.

sector in Israel and business development activities with foreign entitites, as described in section 1.10.2.2 above – in the initial stage mainly in Europe.[17]

1.35 Information on irregular change in the Company's business

None.

1.36 Event or issue outside the Company's ordinary business

None.

1.37 Other forecasts and estimates regarding the Company's business

None.

1.38 Financial information regarding geographical sectors

1.38.1 The activity of the systems department is primarily in Israel, and overseas in a small number of cases.

1.38.2 The Company's products are sold primarily in Europe, Israel, North America, South and Central America, Asia and Africa. For details concerning the Company's activity by geographical sectors see Notes 29(3)a. and 29(3)b. in the financial statements (Chapter C below), as well as sections 1.9, 1.10 and 1.14 above.

1.39 Discussion of risk factors

Below are the risk factors affecting the Company, and management's estimate of the extent of their effect on its business:

[17] The information concerning development and strengthening of the Company's marketing system in the systems sector is forward-looking information. The principal data which served as a basis for this information are: analysis of characteristics of marketing and markets of the services provided by the Company's systems department as conducted by the Company from time to time, and the protracted and complex process of sale of these services as detailed in this report. The principal factors that are likely to prevent this information from being implemented are: the strong competition in this field, and the need to identify appropriate distributors and/or prospective collaborations with appropriate business entities having capability and experience in the systems sector.

Type of Risk	Nature of Risk	Evaluation of extent of the effect on the Company
Macro Risks	*Exposure to volatility in the markets:* The Company is exposed to changes in general factors affecting the main markets in which it operates, such as the slowdown in business activity in Israel and the world and the effects of security-related events in Israel and worldwide.	High
	Exposure to interest risks: The Company is exposed to changes in prime and LIBOR interest rates in connection with various loans as detailed in section 1.26 above.	High
	Currency exposure: The Company is exposed to changes in the exchange rates of the US$ and the €, as detailed in section 2.3 below.	Medium
	Exposure to investment in negotiable securities: The Company is exposed to changes in the prices of securities in which a material portion of its financial means is invested, as detailed in section 2.3 below.	Medium
	Exposure to strikes at Israel's ports: Strikes at Israel's sea and/or airports could delay imports of raw materials used by the Company (including components of logistics systems) and/or exports of the Company's products overseas, thereby compromising delivery dates undertaken by the Company, which in turn is liable to cause the Company expenses and/or harm its goodwill.	Low
Sector Risks	*Competition:* The Company is exposed to competition from entities with resources and goodwill exceeding those of the Company, as detailed in sections 1.16 and 1.10.2.2 above.	High
	Raw materials: The Company is exposed to risks arising from possible temporary worldwide shortages in electronic components and from limited allocations of components (allocations and conformance to the RoHS directive) by components manufacturers in certain cases of surplus demand, as detailed in sections 1.23 and 1.28 above.	High
	RoHS and WEEE Directives: The Company is exposed to risks arising from noncompliance of its products or services with the requirements of the European directives, as detailed in sections 1.28 and 1.29.3 above.	High
	Development of new technologies and/or products: The Company is exposed to risks related to development of new products and/or technologies whose successful development and/or marketing are uncertain, as detailed in section 1.12 above.	Medium
	Standards: The Company is exposed to risks arising from noncompliance of its products or services with specific standard requirements, as detailed in sections 1.28 and 1.29.3 above.	Medium
Company-specific Risks	*Principal customers:* Material parts of the Company's revenues originate from a limited number of principal customers entering into material transactions of a onetime nature with the Company, as detailed in sections 1.13 and 1.14.3 above.	Medium
	Dependency on the Israeli market: The Company's activity in the systems sector is dependent on the Israeli market, which tends to be affected by the aforesaid macro and sector risks more than markets overseas, and in which the demand for projects is lower than the demand in corresponding markets overseas.	Medium
	Dependency on founder and controlling shareholder: The Company is materially dependant upon the continued services of Mr. Haim Shani, as detailed in section 1.22.4A above.	Medium
	No registered intellectual property rights: The Company is exposed to risks arising from the absence of registered intellectual property rights, as detailed in section 1.21 above.	Low

Type of Risk	Nature of Risk	Evaluation of extent of the effect on the Company
	Low share prices and trading volumes: The Company's shares are traded on the stock exchange in Belgium at prices significantly lower than the price offered to the public in 1999 (€ 3.72), and on the Tel Aviv Stock Exchange at prices lower than the price offered to the public in May 2004 (NIS 7.55 per share). There is no certainty that the price of the Company's shares on the stock exchange will not continue to decline. Furthermore, the trading volumes in the Company's shares on the stock exchange in Belgium and on the Tel Aviv Stock Exchange are usually low, adversely affecting their tradability.	Low
	No arbitrage on the stock exchanges in Israel and Belgium: Although the Company's shares are traded on the EuroNext Stock Exchange in Belgium and on the Tel Aviv Stock Exchange, at this stage there can be no parallel trading in the Company's shares on these two stock exchanges in real time. In these circumstances, gaps arise from time to time in the share prices on these stock exchanges. There is no certainty that these gaps will diminish. Such gaps are liable to cause damage to investors in the Company's securities, as well as to the Company itself in certain circumstances.	Low

Chapter B – Board of Directors Report
On the State of Affairs of the Corporation (Reg. 10 - 10A)

2.1 Summary Quarterly Statements of Profit and Loss (Reg. - 10A)

	NIS 000's				
	1-3/2005	4-6/2005	7-9/2005	10-12/2005	1-12/2005
Revenues	19,626	20,214	20,388	20,546	80,774
Cost of sales	13,588	13,771	14,053	14,187	55,599
Gross profit	6,038	6,443	6,335	6,359	25,175
R&D expenses, net	1,287	1,367	1,372	1,582	5,608
Sales and marketing expenses	1,887	2,388	2,513	2,729	9,517
General and administrative expenses	1,628	2,228	1,546	1,476	6,878
Ordinary operating profit	1,236	460	904	572	3,172
Financial expenses	408	160	154	1,789	2,511
Other income					
Profit (loss) before taxes	828	300	750	(1,217)	661
Taxes on income (tax benefit)	14	(25)	(19)	67	37
Periodic profit (loss)	814	325	769	(1,284)	624

2.2 Explanations to the Financial Statements (Reg. 10)

2.2.1 General

The Company engages, through its Products Department, in the design, development, production, marketing and sale of industrial automation products, mainly PLCs, and through its Systems Department, in design, construction and maintenance services within the framework of projects for the automation, computerization and integration of computerized production and/or logistics systems; mainly automated warehouses and automated distribution centers. The Company's PLCs are distributed through over one hundred distributors (and a wholly-owned subsidiary) in approximately 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 of Israel.

2.2.2 Main Events During the Period of the Report and in the Period Prior to Publication Thereof

Main Agreements for the Supply of Automated Warehouses and Other Systems

In 2005, and in January – March 2006, the Company entered into a number of agreements for the design and construction of automated logistics systems. The main ones, in terms of financial scope, were a January 2005 revised version of an agreement dated July 15, 2004, which had been entered into with an Israeli client engaged in the import, processing, production and marketing of raw materials and metal products (see section 1.13.3 (c) above for further detail), an agreement of January 2005 for the supply and installation of a warehouse and pallet conveying system at a packaging and plastic products manufacturer's plant in Israel (further to a similar system that was installed by the Company for this customer in 2001) for total consideration (linked to the Euro) of approximately NIS 2.5 million, plus VAT, which is planned to be completed during the first half of 2006. An additional agreement includes one dated October 27, 2005 with a large food corporation associated with the Sunfrost/Tnuva group, for the design, supply and installation of an automated logistics system, which includes an automatic frozen storage system, and control and software methods of managing the storage system, in consideration for a total aggregate sum (linked to the Euro) estimated at approximately NIS 6.5 million plus VAT, as of the date of the agreement. Pursuant to the terms of the agreement, the project is expected to be completed during the fourth quarter of 2006.

<u>Special Bonus to the CEO of the Company</u>

On April 12, 2005, the General Meeting of the Company's shareholders approved payment of a special bonus to Mr. Haim Shani, the controlling shareholder of the Company, who also acts as CEO of the Company and chairman of the Board of Directors. Such payment was approved as compensation for his contribution to the Company's successful operations in recent years generally, and in 2004 in particular, and for the Company having registered net profit during such year. The total cost to the Company of such bonus amounts to approximately NIS 400 thousand. The General Meeting of the Company's shareholders further approved a framework transaction pursuant to which Mr. Haim Shani would receive an annual bonus for every calendar year commencing in 2005, and for as long as Mr. Shani is employed as the CEO of the Company (for further detail regarding payment of a bonus for 2005, see section 1.22.4 above).

<u>Execution of a Market Making Agreement</u>

On February 20, 2006, the Audit Committee and Board of Directors of the Company approved the Company's entering into a market making agreement with Harel Investment House Ltd., regarding market making of the Company's shares, which became effective on March 1, 2006 (for further details, see section 1.4.9 above).

<u>Acquisition of Company Stock (creation of Dormant Shares in the Company's share capital)</u>

As of August 2005, the Company purchases ordinary shares of the Company, from time to time, within the framework of trade on the Stock Exchange (see section 1.4.7 above for further details).

2.2.3 The Financial Situation

Assets

The total assets according to the Company's consolidated balance sheet of December 31, 2005, amounted to approximately NIS 97,739 thousand as compared to NIS 93,986 thousand as of December 31, 2004. This increase is attributable mainly to the growth in cash, cash equivalents, marketable securities and in the Accounts Receivable- Trade item, as set forth below.

In the total of the Cash, Cash Equivalents and Marketable Securities items, growth was recorded from approximately NIS 49,083 thousand as of December 31, 2004, to approximately NIS 51,205 thousand as of December 31, 2005. This is mainly attributable to positive cash flow from current operations, as set forth below.

In the Receivable Trade item, growth was recorded from approximately NIS 6,862 thousand as of December 31, 2004 to approximately NIS 10,103 thousand as of December 31, 2005. The increase is mainly attributable to the growth in receivables in the Systems sector, whose source lies in the progress of the implementation of existing projects and the commencement of implementation of new projects during 2005.

Despite the increase in revenues during the reported period, no significant change was recorded in the amount of inventory. The amount of inventory was estimated at approximately NIS 9,451 thousand as of December 31, 2005, as compared to NIS 9,785 thousand as of December 31, 2004. The Company believes that this relative improvement is mainly attributable to an improvement in the procurement and inventory management processes. The Company holds, on a regular basis, approximately 60 – 75 days' worth of inventory of components and raw materials, which are intended for the forecasted requirements for a period of approximately two months. In addition, the Company has finished product inventory intended to enable the supply of current orders for approximately 30 – 45 days. For further details with regard to raw materials, suppliers and inventory, see Chapter A (sections 1.23 and 1.24.1) above.

As of December 31, 2005, no inventory work-in-progress was recorded, as compared to NIS 443 thousand which was recorded as of December 31, 2004. This item is mainly attributable to expenses in respect of works in progress in the Systems sector and reflects a situation of progress in the implementation of projects on a specific date only. The differences reported in this item are attributable to differences in the pace of progress in the implementation of projects and the pace of the accounting recordings in the ordinary course of the Company's business.

The Fixed Assets balance as of December 31, 2005, amounted to approximately NIS 22,471 thousand as compared to NIS 22,620 thousand as of December 31, 2004. This stability is mainly attributable to the absence of special investments or prominent reductions during the reported period. For further details with regard to the fixed assets, see Chapter A (section 1.19) above.

The item referring to Other Net Assets and Deferred Expenses as of December 31, 2005, amounted to approximately NIS 3,279 thousand, as compared to NIS 4,157 thousand as of December 31, 2004. This difference is mainly attributable to the decreased deferred issue expenses in respect of Bonds (Series 1) that were issued to the public pursuant to the Israeli prospectus.

Liabilities

Total short-term credit amounted to approximately NIS 1,103 thousand as of December 31, 2005, as compared to NIS 1,127 thousand as of December 31, 2004. This item mainly includes current maturities of long-term loans. For the reported period, the main part of the item is attributable to current maturities for the Company's convertible bonds, as further detailed in section 1.4.2 above. No material change was recorded in this item.

Despite the increase in revenues during the reported period, no material change was recorded in the Accounts Payable - Trade item, which amounted to approximately NIS 13,146 thousand as of December 31, 2005, as compared to NIS 13,730 thousand as of December 31, 2004. This is due to the fact that the increase in revenues is mainly attributable to the Systems sector, while the supplier credit terms in this sector are usually shorter than supplier credit terms in the Products sector.

The Accounts Payable - Other item amounted to approximately NIS 12,305 thousand as of December 31, 2005, as compared to NIS 7,895 thousand as of December 31, 2004. This growth is mainly attributable to an increase in the Expenses for Payment for Operations in the Systems sector for the reported period, as described below and from an increase in advance income.

The Long-Term Liabilities item amounted to approximately NIS 50,520 thousand as of December 31, 2005, as compared to NIS 50,619 thousand as of December 31, 2004. This item mainly includes the Company's convertible bonds, following the issuance of the Company's bonds (Series 1) pursuant to the Israeli prospectus, and due to the credit line provided for the purchase of the Company's rights in the Company's floors in the Unitronics House, as detailed in section 1.26.2 above.

The Company's working capital amounted to approximately NIS 45,234 thousand as of December 31, 2005, as compared to NIS 44,324 thousand as of December 31, 2004. The increase is mainly attributable to an increase in the Company's operation and revenues, as detailed above. For further details with regard to the working capital, refer to Chapter A (section 1.4.7) above.

The Company's shareholders' equity amounted to approx. NIS 20,665 thousand as of December 31, 2005, as compared to NIS 20,615 thousand as of December 31, 2004. The Company estimates that this stability is mainly attributable to the net profit of the Company after offsetting the acquisition of the Company's ordinary shares within the framework of their trade on the Tel-Aviv Stock Exchange (see section 1.4.7 above for further details regarding the acquisition of the Company's shares).

2.2.3.1 Analysis of the Financial Situation By Sectors of Operations

As stated above, the Company's main commercial activities are performed through two business departments, the Product Department and the Systems Department. For further details with regard to the sectors of the Company's operations, see Chapter A (sections 1.8, 1.9, 1.10 and 1.11) above.

The Products Sector

The total assets used in the Products sector amounted to approximately NIS 14,450 thousand as of December 31, 2005, as compared to approximately NIS 14,056 thousand as of December 31, 2004. Despite the increase at a rate of approximately 24%, no material change was recorded in this item. In the Company's opinion, this is primarily attributable to the fact that no increase was recorded in the Inventory and Accounts Receivable - Trade item of this sector.

The total liabilities in the Products sector amounted to approximately NIS 8,708 thousand as of December 31, 2005, as compared to NIS 6,351 thousand as of December 31, 2004. The increase at a rate of approximately 37% is mainly attributable to the increase in the Accounts Payable - Trade items, which also arises, in the Company's opinion, from the increase in the scope of product sales during the period, as reflected in the growth in revenues from this sector at a rate of approximately 24% (see below).

The Systems Sector

The total assets used in the Systems sector amounted to approximately NIS 7,186 thousand as of December 31, 2005, as compared to approximately NIS 4,377 thousand as of December 31, 2004. In the Company's opinion, this increase is mainly attributable to the scope of systems sales during the period, as reflected in the growth in revenues from this sector at a rate of approximately 37%, as detailed below.

The total liabilities in the Systems sector amounted to approximately NIS 14,424 thousand as of December 31, 2005, as compared to NIS 11,738 thousand as of

December 31, 2004. The increase at a rate of approximately 23%is mainly attributable to the increase in the Accounts Payable - Trade and Other items, which derives, in the Company's opinion, from the increase in the scope of systems sales during the period (a number of contracts for the supply and installation of automated warehouses that were signed during the reported period) as expressed in the growth in revenues from this sector at a rate of approximately 37% (see below) and from the consequent increase in the amount of the equipment and sub-contracting orders required for installation of the systems.

Assets and Liabilities Not Attributed to Any Particular Sector of Operations

The total assets not attributed to any particular sector of operations amounted to approximately NIS 75,860 thousand as of December 31, 2005, as compared to NIS 75,370 thousand as of December 31, 2004. No material change was record in this item, as result of the growth in cash reserves and marketable securities, after offsetting the reduction in the Fixed Assets and Other Assets items, as set forth above.

The total liabilities not attributed to any particular sector of operations amounted to approximately NIS 53,723 thousand as of December 31, 2005, as compared to NIS 55,105 thousand as of December 31, 2004. This decrease is mainly attributable, in the Company's opinion, to the reduction in the item relating to suppliers that are not categorized under any specific sector of operation.

2.2.4 Operating Results

Revenues

Revenues for the year ended December 31, 2005, amounted to approximately NIS 80,774 thousand, as compared to approximately NIS 61,771 thousand as of December 31, 2004 (an increase of approximately 31%) and as compared to NIS 40,306 thousand for 2003 (an increase of approximately 200%). The continued increase in revenues during the recent seventeen consecutive quarters is mainly attributable, in the Company's opinion, to the following:

- Continued market recognition of the Company's products. Most of these products have been developed in the past six years and new models have been introduced each year, including the reported year.

- Global marketing efforts with the aim of enhancing market penetration and product recognition.

- Increased involvement by the Company in integration activities through the Systems Department. These activities included, in the reported year, a number of new contracts for the supply and installation of automated warehouses, as set forth in this report.

For further details with regard to the Company's customers, including its principal customers, see Chapter A (section 1.13) above.

Cost of Revenues

The cost of revenues amounted to approximately NIS 55,599 thousand for the year ended December 31, 2005 (constituting approximately 69% of the revenues in such period), as compared to approximately NIS 40,069 thousand for the year ended December 31, 2004 (constituting approximately 65% of the revenues in such period) and as compared to approximately NIS 26,483 thousand for the year ended December 31, 2003 (constituting a similar rate, i.e. approximately 66% of the revenues in the period). The increase in this item is attributable to the growth in the Company's revenues, as explained above, while differences in the gross profit rates occurred, as set forth below.

Gross Profit

The total gross profit for the year ended December 31, 2005, amounted to approximately NIS 25,175 thousand (constituting approximately 31% of the revenues in such period), as compared to approximately NIS 21,702 thousand for the year ended December 31, 2004 (constituting approximately 35% of the revenues in such period) and as compared to approximately NIS 13,823 thousand for the year ended December 31, 2003 (constituting approximately 34% of the revenues in such period). The increase in sums in this item is attributable to the growth in the Company's revenues, as explained above. The decrease in the gross profit rate for the period is mainly attributable to the increase in the portion of revenues from the systems sector out of the total Company revenues – a sector whose gross profit is lower than the gross profit of the Products Sector. For further details with regard to the gross profit in each particular sector of operations severally, see the analysis of the business results by sectors of operations, below. For further details with regard to profitability from products and services, see Chapter A (Section 1.11) above.

Research and Development Expenses, Net

The net research and development (R&D) expenses for the year ended December 31, 2005, amounted to approximately NIS 5,608 thousand (constituting approximately 7% of the revenues), as compared to NIS 4,169 thousand for the year ended December 31, 2004 (constituting approximately 7% of the revenues) and as compared to approximately NIS 3,055 thousand for the year ended December 31, 2003 (constituting approximately 8% of the revenues). The R&D expenses in the reported period reflect continued increased development activities of technologies and products required to support the Company's continued growth. For further details with regard to new products and the Company's R&D activities, see Chapter A (section 1.12 and 1.20) above. During and after the reported period, personnel recruitment continued for the development teams, and the Company estimates that further growth can be expected in this item in the coming quarters.[1]

[1] The information with regard to the expected growth in the R&D Expenses item is forward-looking information. The main data constituting the basis for this information are the Company's development plans as set forth in Chapter A (section 1.12), 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 needs 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 in connection with the completion of the development stages pursuant to these plans.

The Company is in the process of developing a new technology (the WilCo™ technology), the development of which was partially financed by the Chief Scientist of the Ministry of Industry and Trade. The Net Research and Development Expenses item for 2005 included the deduction of the amount of the Chief Scientist's contribution.

Selling and Marketing Expenses

The selling and marketing expenses for the year ended December 31, 2005, amounted to approximately NIS 9,517 thousand (constituting approximately 12% of the revenues) as compared to approximately NIS 7,746 thousand for the year ended December 31, 2004 (constituting approximately 13% of the revenues) and as compared to approximately NIS 6,667 thousand for the year ended December 31, 2003 (constituting approximately 17% of the revenues).

The increase in the selling and marketing expenses during the reported period reflects an adjustment to the increase in revenues, which is required in order to support the Company's continued growth, in accordance with the Company's policy in this area. It was caused, among other reasons, by the recruitment of personnel for the marketing teams, attendance and participation in international exhibitions and additional marketing activities in Israel and worldwide. For further details with regard to the marketing and distribution activities, see Chapter A (section 1.14) above. The Company believes that further growth can be expected in this item in the coming quarters.[2]

General and Administrative Expenses

The general and administrative expenses for the year ended December 31, 2005, amounted to approximately NIS 6,878 thousand (constituting approximately 8.5%

[2] The information with regard to the expected growth in the Selling and Marketing Expenses item is forward-looking information. The main data constituting the basis for this information are the Company's marketing activities, including planned attendance at exhibitions and training sessions for distributors, as well as the need for continued material investments in marketing expenses. The main factors likely to prevent this information from being implemented are changes in the Company's marketing plans arising from reasons beyond the Company's control (such as changes at the Company's distributors, changes in the Company's main markets and/or in markets in which the Company is not active and marketing activities of competitors).

of the revenues) as compared to NIS 4,691 thousand (constituting approximately 7.6% of the revenues) for the year ended December 31, 2004 (an increase of approximately 46%) and as compared to approximately NIS 3,580 thousand for the year ended December 31, 2003 (constituting approximately 8.9% of the revenues).

The general and administrative expenses for the reported period reflect the adjustments required to support the continued growth and the management of the Company's increased activities, and they mainly consist of current expenses in the field of professional consultancy and legal services, costs entailed in the fact that the Company's securities were also listed for trading on the Tel Aviv Stock Exchange, one-time expenses for the Company's U.S. subsidiary's relocation of its offices, as well as payment of a special bonus to the CEO of the Company during the year (as detailed above).

Operating Profit

The total operating profit for the year ended December 31, 2005, amounted to approximately NIS 3,172 thousand (constituting approximately 3.9% of the revenues), a decrease as compared to the operating profit of approximately 5,096 thousand for the year ended December 31, 2004 (constituting approximately 8.2% of the revenues). For the sake of comparison, for the year ended December 31, 2003, the Company reported having registered operating profit, which amounted to approximately NIS 521 thousand.

The decrease in operating profit in the reported period, despite growth of approximately 30% in revenues as compared to 2004, is mainly attributable to an increase and adjustments made during the reported period in the Development, Sales and Marketing and General and Administrative Expenses items, in order to support the Company's continued growth, as set forth above.

Financial Expenses

The financial expenses for the year ended December 31, 2005, amounted to approximately NIS 2,511 thousand, as compared to NIS 2,193 thousand for the year ended December 31, 2004, and as compared to approximately NIS 3,911 thousand for the year ended December 31, 2003.

A significant part of the financial expenses in 2005 were attributable to the effects of the interest components on the convertible bonds that the Company issued, the effect of the depreciation on the deduction, and the deduction of the expenses entailed in the issuance of the Company's securities under the Israeli Prospectus. During 2005 no marked increase was recorded in the financial expenses, mainly as a result of the financial income component (as a result of profit from marketable securities during the first three quarters, after offsetting the loss from the marketable securities during the last quarter) whose source is, primarily, from the Company's investment activities pursuant to the Company's risk management policy as explained below. For further details with regard to financial activities, see Chapter A (section 1.26) above.

As of May 2004, the Company's exposure to changes in the exchange rate of the New Israel Shekel compared to the USD increased, following the issuance of the convertible bonds (Series 1) pursuant to the Israeli prospectus, which are linked to the USD rate. In addition to this exposure to the fluctuations in the exchange rate, there is an interest component as a result of the issuance and therefore, the Company estimates that this item will be affected by these factors in the coming quarters.

Profit (Loss) for the Year

The Company recorded a net profit for the year ended December 31, 2005, amounting to approximately NIS 624 thousand, as compared to a profit of approximately 2,879 thousand the year ended December 31, 2004, and as compared to a loss of approximately NIS 3,510 thousand for the year ended December 31, 2003.

Since the issuance of its shares to the public in September 1999 and the listing of the shares for trading on the Belgian Stock Exchange, the Company has conducted an investment policy under which it has invested extensively in the establishment of an international marketing infrastructure (which has subsequently grown from about four distributors to some 110 distributors) and in the development of new products which are currently the source of its main revenues in the Products Sector. In these years, the Company recorded losses, mainly due to these investments.

The turning point and the commencement of reporting net profit in 2004 (since 1998) were mainly attributable to the growth and increase in revenues in recent years, which the Company believes are attributable to the investments described above. During the reported period, a decrease has been recorded in the reported net profit, mainly attributable to the adjustments made during the reported period in the Development, Selling and Marketing and General and Administrative Expenses items, in order to support the Company's continued growth, and due to the financial expenses, primarily during the last quarter of 2005, as set forth above.

2.2.4.1 Analysis of Business Results by Sectors of Operations

As stated above, the Company's main commercial activities are performed through two business departments, the Products Department and the Systems Department. For further details with regard to the sectors of the Company's operations and the rates of profits from these operations, see Chapter A (sections 1.8, 1.9, 1.10 and 1.11) above.

The revenues from products for the year ended December 31, 2005, constituted approximately 46% of the Company's total revenues for that year, whereas the revenues from systems for the same period constituted approximately 53% of the total revenues (an additional percent results from other revenues). For the year ended December 31, 2004, the revenues from products constituted approximately 48% of the Company's total revenues for that year, whereas revenues from systems for the same period constituted approximately 51% of the total revenues. For the year ended December 31, 2003, the revenues from products constituted approximately 53% of the Company's total revenues for that year, whereas the revenues from systems for the same period constituted approximately 47% of the total revenues. The Company believes that the proportional increase of the revenues from the Systems sector out of the Company's total revenues in the reported period was mainly attributable to increased demand for automated logistics systems, which is expressed in a number of contracts for the supply and installation of automated warehouses that were signed during the reported period. For further details, see Chapter A (section 1.10.2.1) above.

The Products Sector

The total revenues from the Products sector for the year ended December 31, 2005, amounted to approximately 37,201 thousand, as compared to approximately NIS 29,883 thousand for the year ended December 31, 2004, and as compared to approximately NIS 21,181 thousand for the year ended December 31, 2003. The increase at a rate of approximately 24% in the reported period is mainly attributable, in the Company's opinion, to the increased market recognition of the Company's products and to its international marketing efforts.

The rate of gross profit in the Products sector for the year ended December 31, 2005, amounted to approximately 51%, as compared to approximately 53% for the year ended December 31, 2004, and as compared to approximately 49% for the year ended December 31, 2003. The change in this item in the year 2005 is mainly attributable to the (immaterially) differing profit margins of a number of transactions and changes in the combination of revenues from various products series (in the ordinary course of the Company's business), together with an increase in the cost of personnel required for production in order to support the continued growth. For further details with regard to profitability from products and services, see Chapter A (section 1.11) above.

The Products sector results for the year ended December 31, 2005, amounted to approximately NIS 10,498 thousand, as compared to NIS 9,241 thousand for the year ended December 31, 2004, and as compared to approximately NIS 5,112 thousand for the year ended December 31, 2003. The increase at a rate of approximately 14% only in the reported period is mainly attributable, in the Company's opinion, to the growth in revenues from the Products sector, after offsetting the decrease in the rate of gross profit in this sector, as explained above, and the increase in the remaining expense items attributed to this sector.

<u>The Systems Sector</u>

The total revenues from the Systems Sector for the year ended December 31, 2005, amounted to approximately NIS 42,862 thousand as compared to approximately NIS 31,263 thousand for the year ended December 31, 2004, and as compared to approximately NIS 19,125 thousand for the year ended December 31, 2003. The increase at a rate of approximately 37% in the reported period was mainly attributable to a number of contracts for the supply and installation of automated warehouses that were signed during the reported period.

The rate of gross profit in the Systems sector for the year ended December 31, 2005, amounted to approximately 14%, as compared to 19% for the year ended December 31, 2004, and as compared to approximately 18% for the year ended December 31, 2003.

The gross profit of the Company's operations in the Systems sector varies from transaction to transaction, mainly according to the Company's status as a main contractor (which is usually characterized by a larger financial scope and lower profitability, mainly due to the need for sub-contractors) or as a sub-contractor (which is usually characterized by a lower financial scope and higher profitability, mainly due to the use of its own resources), and in accordance with the particular technical and functional requirements of each particular transaction, and the results of the negotiations with the entities ordering the service in each particular case. For further details with regard to profitability from products and services, see Chapter A (section 1.11) above.

The Systems sector results for the year ended December 31, 2005, amounted to approximately NIS 4,591 thousand, as compared to NIS 4,934 thousand for the year ended December 31, 2004, and as compared to approximately NIS 2,475 thousand for the year ended December 31, 2003. The decrease at a rate of approximately 9.3% in the reported period was mainly attributable, in the Company's opinion, to the decrease in the gross profit rate in this sector, as explained above, and the increase in the remaining expense items attributed to this sector.

2.2.5 Liquidity and Financial Sources

The balance of cash, cash equivalents and marketable securities of the Company for the year ended December 31, 2005, amounted to approximately NIS 51,205 thousand, as compared to NIS 49,083 thousand for year ended December 31, 2004. This increase was mainly attributable to the total positive cash flow from the beginning of 2005, as explained in detail below.

The cash flow from operating activities for the year ended December 31, 2005, culminated in a positive cash flow amounting to approximately NIS 3,077 thousand, as compared to a positive cash flow of approximately NIS 11,666 thousand for the year ended December 31, 2004, and as compared to a negative cash flow, amounting to approximately NIS 402 thousand for the year ended December 31, 2003. The change in this item is mainly attributable to an increase in the Accounts Payable – Trade item for 2004, as compared to the relative stability of this item in 2005, and from the decrease in the net results of 2005.

The cash flow from investment activities for the year ended December 31, 2005, culminated in a negative cash flow, amounting to approximately NIS 4,617 thousand, as compared to a negative cash flow of approximately NIS 30,833 thousand for the year ended December 31, 2004, and as compared to a negative cash flow, amounting to approximately NIS 155 thousand for the year ended December 31, 2003. The primary part of cash flow from investment activities in the reported period is attributable to the purchase of marketable securities and fixed assets during this period. After the raising of capital from the public in May 2004 by way of issuance of the Company's securities to the public, investment activities were performed, mainly involving the purchase of marketable securities. Therefore, in 2005 this item recorded a decrease as compared to 2004.

The cash flow from financing activities for the year ended December 31, 2005, amounted to a negative sum of approximately NIS 1,565 thousand, as compared to a positive cash flow of approximately NIS 34,084 thousand for the year ended

December 31, 2004, and as compared to a negative cash flow, amounting to approximately NIS 1,056 thousand for the year ended December 31, 2003. This sum is mainly attributable to the repayment of loans and purchase of the Company's shares during the reported period. The positive cash flow in the preceding period was mainly attributable to the raising of capital from the public in May 2004, by way of issuance of the Company's securities to the public.

As of December 31, 2005, the Company had credit lines for current operations amounting to approximately NIS 12.8 million. As of December 31, 2005, a total sum of approximately NIS 9 million out of the aforementioned credit lines had been used, mainly by way of the issuance of guarantees to secure the Company's obligations in the projects being implemented by the Systems Department.

2.3 Quality Reporting on Exposure to Market Risks and Manner of Their Management

The Company's CEO and CFO are the individuals in the Company responsible for the management of market risks.

Exposure to Exchange Rate Fluctuations

The Company is exposed to exchange rate fluctuations, particularly fluctuations in the rate of the US dollar compared to the New Israel Shekel and compared to the Euro, for the reasons set forth below:

In May 2004, the Company issued convertible bonds (Series 1) pursuant to the Israeli prospectus. The principal and interest of the bonds are linked to the representative rate of exchange of the US dollar. Until the full conversion or the full redemption of the bonds by May 2010, the Company is exposed to fluctuations in the rate of the US dollar compared to the New Israel Shekel.

In February 2001, the Company issued convertible bonds that were issued and denominated in Euros. In December 2003, 75% in principal sum of such bonds was converted into Company shares. Until the full redemption or conversion of such bonds, effective from May 2006 to September 2008, the Company is exposed to fluctuations in the rate of the Euro compared to the New Israel Shekel.

The Company's assets which are exposed to exchange rate fluctuations primarily consist of deposits in various currencies (mainly in Euros and US dollars), debts of customers denominated in various currencies, in accordance with the customer, and which are not interest-bearing, and marketable securities linked to foreign currency.

The Current Liabilities items which are exposed to exchange rate fluctuations include credit from banks and others that is partly linked to foreign currency and also debts to suppliers in foreign currency, mainly in Euros. The Long-Term Liabilities items include debts under a financing plan for the acquisition of rights in the Company's offices at Airport City, about 50% of which are denominated in US dollars, and 50% are denominated in EURO.

Most of the Company's operations are conducted in foreign currency, or in New Israel Shekels linked to foreign currency. In the Products sector, most of the revenues are denominated in US dollars or linked to the rate of the US dollar, with the exception of revenues generated from sales in Europe, which, for the most part, are denominated in Euros. In the Systems sector, most of the Company's revenues are generated from sales which are denominated in Euros or linked to the rate of the Euro.

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

Risks Related to Marketable Securities

Part of the Company's financial means is invested in marketable securities. Unusual developments in capital markets in Israel and around the world could give rise to fluctuations in the rates of the marketable securities on the Stock Exchange and, consequently, could affect the Company's financial income/ expenses.

Interest Risks

The Company has various loans in connection with the acquisition of rights in the Company's facilities at Airport City, convertible bonds which the Company issued pursuant to the Israeli prospectus and other credit facilities bearing various interest rates and exposed to potential changes in the Prime and/or Libor interest rates.

The Company's Policy on Market Risk Management

The Company is acting to reduce its exposure to market risks by implementing suitable control procedures, intended to enable it to identify irregularities in costs and erroneous assessments. These control procedures are performed by the Company's management on a regular weekly basis. In addition, the Company performs daily supervision and reporting of its cash and credit balances.

The Company regularly examines the credit that it has provided to customers and the potential losses that could arise from the provision of credit to customers. The Company makes specific provisions for debts where collection is in doubt.

In the Systems sector, the Company's policy is to endeavor to reduce, for each contract, the exposure to exchange rate fluctuations by adjusting the currency of the revenues to the currency of the main expenses.

At the same time and in order to assist in contending with the exposures described above, the Company has invested, through two separate financial entities in Israel, in dollar-linked investments and in the purchase of variable-interest, dollar-denominated bonds.

2.4. <u>Disclosure of Auditor Salary (Directive of the Securities Authority pursuant to section 36(a) (b) of the Law)</u>

Pursuant to the directive of the Israeli Securities Authority issued under the provisions of section 36(a) (b) of the Securities Law 5728-1968, the following are the total remuneration figures which the Company's auditors are entitled in consideration for audit and other services:

Accountant	Company receiving services	Type of service	2004 NIS thousand	2005 NIS thousand
Amit, Halfon, CPAs Ramat Gan, Israel	Unitronics (1989) (R"G) Ltd.	Audit services, services related to audit and tax services	261	359
Amit, Halfon, CPAs Ramat Gan, Israel	Unitronics (1989) (R"G) Ltd.	Prospectus handling	453	
Clarke, Snow & Riley LLP Quincy, MA, USA	Unitronics Inc.	Audit services, services related to audit and tax services.	135	210

2.5. Consolidated Linkage Basis Report as of December 31st 2005

Consolidated Linkage Basis Report	Israeli Currency		Foreign Currency				
	Not linked	Linked to the Consumer Price Index	In Euros	In US dollars	In other currencies	Non-monetary balances	Total
			NIS 000's				
Assets							
Cash and cash equivalents	3,870	-	10,180	3,792	-	-	17,842
Marketable securities	3,869	16,096	-	13,398	-	-	33,363
Accounts receivable - trade	7,011	-	1,517	1,575	-	-	10,103
Accounts receivable - other	181	591	-	-	-	257	1,029
Inventory	-	-	-	-	-	9,451	9,451
Inventory Work-in-progress	-	-	-	-	-	-	-
Long-term deposits	-	-	-	-	-	201	201
Property and Equipment	-	-	-	-	-	22,471	22,471
Other assets	-	-	-	-	-	3,279	3,279
Total assets	14,931	16,687	11,697	18,765	-	35,659	97,739
Liabilities							
Credit from Banks and Others	1	158	944	-	-	-	1,103
Accounts payable - trade	8,390	-	4,701	55	-	-	13,146
Accounts payable - other	10,865	-	-	342	-	1,098	12,305
Long-term debts	-	359	5,528	5,524	-	-	11,411
Convertible bonds	-	-	3,604	33,908	-	-	37,512
Accrued severance pay, net	1,346	-	-	-	-	-	1,346
Deferred taxes	-	-	-	-	-	251	251
Total liabilities	20,602	517	14,777	39,829	-	1,349	77,034
Balance (Net)	(5,671)	16,170	(3,080)	(21,064)	0	34,310	20,665

2.6 Internal Auditor and Internal Audit at the Company (Directive of the Securities Authority pursuant to section 36(a) (b) of the Law)

(a) The Company's internal auditor is CPA Eyal Horovitz (jurist) who has held this position since June 2000. In the Company's opinion, the credentials that qualify CPA Horowitz for his position as the Company's internal auditor are his education as a CPA and jurist and his involvement in the audit as a CPA and an internal auditor of public companies as of 1991.

(b) CPA Horovitz is not an employee of the Company and provides internal auditing services to the Company as an external entity.

(c) The scope of employment of the internal auditor and the team of employees subordinate to him in the years 2003, 2004 and 2005 in internal auditing for the Company was approximately 150 hours on average each year.

(d) The considerations in determining the current and multi-year audit plan at the Company are mainly (1) proposals of the internal auditor for periodic and annual working plans; (2) proposals of members of the Audit Committee and the Board of Directors of the Company, based on, among other factors, the proposals of the internal auditor, the subjects of the internal audit in past years, the recommendations of the Company's legal advisor and issues that have been discussed at regular meetings of the Audit Committee and the Board of Directors of the Company; and (3) the size of the Company, its organizational structure and the nature and scope of its business activities.

(e) The internal audit reports for 2003 related to a number of aspects of the operations of Unitronics Inc. (a wholly-owned subsidiary that was incorporated in June 2001 and engages mainly in the coordination of the Company's marketing and distribution activities in the USA), including the monitoring of the implementation of the recommendations of the internal auditor in these matters.

Unitronics House Management and Maintenance (2003) Ltd. was incorporated in 2003 and commenced operations in 2004. The Company's internal audit report for the year 2004 related to a number of aspects of the operations of this subsidiary.

(f) The internal auditor, according to his notice to the Company dated February 17, 2005, conducts the audit at the Company in accordance with the generally accepted professional standards, as detailed in Section 4(b) of the Internal Audit Law 5752 – 1992, which are based on the professional standards for internal auditing of the Israeli Internal Auditors' Chamber.

(g) The organizational authority over the Company's internal auditor is the Chairman of the Board of Directors of the Company, as the administrative authority, and the Chairman of the Audit Committee of the Company, as the professional authority and as the person who instructs the internal auditor with regard to the subjects for the internal audit.

(h) Below are details of the dates on which a report on the internal auditor's findings was served upon the Chairman of the Board of Directors and the Chairman of the Audit Committee, and the dates on which a discussion was held regarding the reports at the Audit Committee and/or at the Board of Directors of the Company.

Report for 2005	Report for 2004	Report for 2003	Subject
8/02/06	13/01/05	15/01/04	Date of service of the internal auditor's report
20/02/06	26/01/05	19/02/04	Date of discussion at the Audit Committee
20/02/06	26/01/05	19/02/04	Date of discussion at the Board of Directors

(i) The Board of Directors of the Company believes that the nature and continuity of the activities and the working plan of the Company's internal auditor are reasonable, considering the size of the Company, its organizational structure and the nature and scope of its business activities, and that they allow fulfilling the objectives of the internal audit. The internal auditor was given unrestricted access, as stated in section 9 of the Internal Audit Law, 5752 – 1992, including continuous and unmediated access to the Company's information systems, including financial data.

2.7 Company's Position Regarding Peer Review of the Institute of Certified Public Accountants (Directive of the Securities Authority pursuant to section 36(a) (b) of the Law)

On April 20, 2005, the Securities Authority published a directive requiring disclosure regarding consent to "peer review", with the purpose, as described in the directive, of setting in motion a process of supervision of work performed by accounting firms. On August 11, 2005, November 17, 2005, and March 27, 2006 the Board of Directors of the Company discussed the possibility that the Company would be requested to cooperate with the Peer Review Institute, as part of a representative sample, and to disclose documents connected with auditing work that had been performed with respect thereto, and which are in the possession of the Company auditor. The Company's board of directors approved the consent required of the Company for conducting the review.

2.8 <u>Directors with Accounting Skills</u>: At the meeting of the Company's Board of Directors held on March 18, 2004, the Company's Board of Directors determined that the appropriate minimum number of directors of the Company with accounting and financial skills, taking into consideration, among other things, the size of the Company, the type of its operations, its complexity, etc., would be one director, for such time as the Company's Board of Directors comprises up to six members. In actual fact, two directors with accounting and financial skills out of five members of the Board of Directors serve at the Company, namely Messrs. Zvi Livne and Ron Mishael, both of which have an academic degree in accountantship and currently serve and work as auditors (for further details see section 4.11.1 below).

Haim Shani CEO and Chairman of the Board of Directors	Zvi Livneh Director
March 27, 2006	March 27, 2006

UNITRONICS (1989) (R"G) LTD.

Financial Statements
December 31,2005

Unitronics (1989) (R"G) Ltd.

Financial Statements

December 31, 2005

Table of contents

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

16 Aba Hillel Silver St. Ramat - Gan 52506 Israel Tel: 03-6123939 Fax: 03-6125030
24 Kanfey Nesharim St. P.O.B. 34356 Jerusalem 91343 Israel Tel: 02-6541206 Fax: 02-6541207
E-mail: office@ahcpa.co.il

Independent Auditors' Report
To the shareholders of Unitronics (1989) (R"G) Ltd.

We have audited the accompanying balance sheets of Unitronics (1989) (R"G) Ltd. (hereinafter the "Company"), and the consolidated balance sheets of the Company and its subsidiaries as at December 31, 2004 and 2005, and the statements of operations, shareholders' equity and cash flows of the Company, and of the Company and its subsidiaries consolidated for each of the three years the last of which ended December 31, 2005. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of a subsidiary whose assets constitute 2% and 3% of the total consolidated assets as at December 31, 2004 and 2005 respectively and whose revenues constitute 9%, 9% and 11%, of the total consolidated revenues for the years ended December 31, 2003, 2004 and 2005 respectively. The financial statements of the subsidiary were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts emanating from the financial statements of the subsidiary, is based on the opinions of the other auditors.

We conducted our audits in accordance with auditing standards, generally accepted in Israel, including those prescribed under the Auditors Regulations (Auditor's Mode of Performance) 1973. These auditing standards are substantially identical to IFAC. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and Management of the Company, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the above mentioned other auditors, the above financial statements present fairly, in all material respects, the financial position of the Company, and the consolidated financial position of the Company and its subsidiaries as at December 31, 2004 and 2005, and the results of operations, changes in shareholders' equity and cash flows of the Company, and of the Company and its subsidiaries consolidated for each of the three years the last of which ended December 31, 2005, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). As applied to these financial statements, Israeli GAAP are substantially identical to the International Financial Reporting Standards (IFRS) in all material respects except as otherwise described in Note 27 to the Financial Statements.

As described in Note 2D, the financial statements as of the dates and for the reported periods subsequent to December 31, 2003, are presented in reported amounts, in conformity with Accounting Standards of the Israel Accounting Standards Board. The financial statements as of the dates and for the reported periods until the aforementioned date are presented in values that were adjusted until that date according to the changes in the general purchasing power of the Israeli currency, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

Amit, Halfon
Certified Public Accountants (Israel)

Tel-Aviv, March 27, 2006

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

Notes		December 31, 2005	December 31, 2005	December 31, 2004
			(in thousands)	
		Convenience translation into EURO, (unaudited) (1)	Reported NIS (2)	
2H;3	Cash and cash equivalents	3,276	17,842	20,947
2I;4	Marketable securities	6,125	33,363	28,136
	Accounts receivable -			
5	Trade	1,855	10,103	6,862
6	Other	189	1,029	903
2J;7	Inventory	1,735	9,451	9,785
2K;8	Inventory - work in progress	-	-	443
	Current assets	*13,180*	*71,788*	*67,076*
	Long-term deposits	*37*	*201*	*133*
2M;10	*Property and equipment*	*4,126*	*22,471*	*22,620*
2P;11	*Other assets*	*602*	*3,279*	*4,157*
18	***Total assets***	***17,945***	***97,739***	***93,986***
12	Credit from banks and others	202	1,103	1,127
	Accounts payable -			
13	Trade	2,414	13,146	13,730
14	Other	2,259	12,305	7,895
	Current liabilities	*4,875*	*26,554*	*22,752*
15	Long-term debt	2,095	11,411	11,062
2O;16	Convertible bonds	6,888	37,512	38,252
17	Accrued severance pay, net	247	1,346	1,140
2U;22	Deferred taxes	46	251	165
	Long-term liabilities	*9,276*	*50,520*	*50,619*
19	Commitments and contingent liabilities			
20	Share capital	65	352	352
	Share premium	8,894	48,442	48,442
	Receipts on account of warrants	124	676	676
	Company shares held by the company	(106)	(574)	-
	Accumulated loss	(5,183)	(28,231)	(28,855)
	Shareholders' equity	*3,794*	*20,665*	*20,615*
18	***Total liabilities and shareholders' equity***	***17,945***	***97,739***	***93,986***

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

Approved: March 27, 2006

(1) See Note 2F.
(2) See Note 2D.

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

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

Notes		For the year ended December 31, 2005	For the year ended December 31, 2005	2004	2003
		(in thousands)			
		Convenience translation into EURO, (unaudited) (1)	**Reported NIS (2)**	**Reported NIS (2)**	**Adjusted NIS (3)**
2Q;21A	Revenues	14,830	80,774	61,771	40,306
21B	Cost of revenues	10,208	55,599	40,069	26,483
	Gross profit	*4,622*	*25,175*	*21,702*	*13,823*
2R;21C	Research & development expenses, net	1,030	5,608	4,169	3,055
21D	Selling & marketing expenses	1,747	9,517	7,746	6,667
21E	General & administrative expenses	1,263	6,878	4,691	3,580
	Operating profit	*582*	*3,172*	*5,096*	*521*
21F	Financing expenses, net	460	2,511	2,193	3,911
	Operating profit (loss) after financing expenses, net	*122*	*661*	*2,903*	*(3,390)*
	Other income (expenses), net	-	-	48	(9)
	Profit (loss) before taxes on income	*122*	*661*	*2,951*	*(3,399)*
2T;22	Taxes on income	7	37	72	111
	Profit (loss) for the year	*115*	*624*	*2,879*	*(3,510)*
2V;24	*Profit (loss) per NIS 1 ordinary share (Israeli GAAP)*	*0.49*	*2.68*	*12.69*	*(19.61)*
27	Profit (loss) per share under International Financial Reporting Standards	*0.01*	*0.05*	*0.22*	*(0.39)*

(1) See Note 2F.
(2) See Note 2D.
(3) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.

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

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

	Share capital						
	Number of shares*	Amount	Share premium	Receipts on account of warrants	Company shares held by the company	Accumulated loss	Total
			Adjusted NIS in thousands (3)				
Balance at January 1, 2003	8,864,388	295	30,233	-	-	(28,224)	2,304
Issue of share capital	109,410	3	523	-	-	-	526
Conversion of convertible bonds	1,902,748	38	12,965	-	-	-	13,003
Loss for the year	-	-	-	-	-	(3,510)	(3,510)
Balance at December 31, 2003	10,876,654	336	43,721	-	-	(31,734)	12,323
			Reported NIS in thousands (2)				
Balance at January 1, 2004	10,876,654	336	43,721	-	-	(31,734)	12,323
Issue of share capital	800,000	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	11,676,546	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	11,676,546	352	48,442	676	(574)	(28,231)	20,665

	Share capital						
	Number of shares*	Amount	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	11,676,546	65	8,894	124	-	5,298	3,785
Purchase of company shares by the company	-	-	-	-	(106)	-	(106)
Profit for the year	-	-	-	-	-	115	115
Balance at December 31, 2005	11,676,546	65	8,894	124	(106)	(5,183)	3,794

* See Note 20.

(1) See Note 2F.
(2) See Note 2D.
(3) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.

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

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

	For the year ended December 31,	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	**Reported NIS (2)**	**Reported NIS (2)**	**Adjusted NIS (3)**
Profit (loss) for the year	115	624	2,879	(3,510)
Depreciation and amortization	552	3,004	2,099	1,603
Profit from marketable securities, net	(445)	(2,425)	(396)	(90)
Capital (gain) loss	-	-	(48)	9
Increase (decrease) in accrued severance pay, net	38	206	72	(15)
Deferred taxes, net	6	35	32	111
Exchange rate changes of long-term debt and convertible bonds	18	97	326	1,470
Decrease (increase) in accounts receivable - trade	(595)	(3,241)	(1,617)	184
Decrease (increase) in accounts receivable - other	(23)	(126)	(400)	458
Decrease (increase) in inventory	61	334	(3,406)	(1,974)
Decrease (increase) in inventory - work in progress	81	443	905	(1,348)
Increase (decrease) in accounts payable - trade	(52)	(284)	8,695	2,565
Increase in accounts payable - other	809	4,410	2,525	135
Cash flows provided by (used in) operating activities	*565*	*3,077*	*11,666*	*(402)*
Investment in marketable securities, net	(515)	(2,802)	(26,695)	142
Change in bank deposit	-	-	-	3,811
Purchase of property and equipment	(301)	(1,637)	(4,309)	(3,997)
Sale of equipment	-	-	246	34
Investment in long-term deposits	(17)	(94)	(37)	(19)
Repayment of long-term deposits	5	26	20	34
Investment in patent	(20)	(110)	(58)	(6)
Investment in other assets	-	-	-	(154)
Cash flows used in investing activities	*(848)*	*(4,617)*	*(30,833)*	*(155)*
Deferred offering expenses	-	-	(4,184)	-
Loans received from banks	2,031	11,063	-	-
Repayment of long-term loans	(2,210)	(12,042)	(594)	(625)
Loans received from others	-	-	283	-
Short-term credit from banks, net	(2)	(12)	13	(635)
Receipts on account of warrants	-	-	676	-
Purchase of company shares by the company	(106)	(574)	-	-
Convertible bonds issue	-	-	33,153	-
Share capital issue	-	-	4,737	526
Expenses related to conversion of convertible bonds to share capital	-	-	-	(322)
Cash flows provided by (used in) financing activities	*(287)*	*(1,565)*	*34,084*	*(1,056)*
Increase (decrease) in cash and cash equivalents	*(570)*	*(3,105)*	*14,917*	*(1,613)*
Cash and cash equivalents at beginning of year	3,846	20,947	6,030	7,643
Cash and cash equivalents at end of year	*3,276*	17,842	20,947	6,030

(1) See Note 2F.
(2) See Note 2D.
(3) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.

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

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

	For the year ended December 31,	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	Reported NIS (2)	Reported NIS (2)	Adjusted NIS (3)
Appendix A - Non cash transactions				
Payables related to property and equipment	-	-	300	1,521
Conversion of convertible bonds	-	-	-	13,325

(1) See Note 2F.
(2) See Note 2D.
(3) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.

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

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

Notes		December 31, 2005	December 31, 2005	December 31, 2004	
		(in thousands)			
		Convenience translation into EURO, (unaudited) (1)	Reported NIS (2)		
2H;3	Cash and cash equivalents	3,093	16,845	20,630	
2I;4	Marketable securities	6,125	33,363	28,136	
	Accounts receivable -				
5	Trade	1,561	8,500	5,958	
6	Other	1,260	6,862	4,387	
2J;7	Inventory	1,693	9,223	9,537	
2K;8	Inventory - work in progress	-	-	443	
	Current assets	*13,732*	*74,793*	*69,091*	
	Long-term deposits	*37*	*201*	*133*	
2L;9	*Investment in subsidiaries*	*15*	*80*	*75*	
2M;10	*Property and equipment*	*4,094*	*22,299*	*22,463*	
2P;11	*Other assets*	*602*	*3,279*	*4,157*	
	Total assets	***18,480***	***100,652***	***95,919***	
12	Credit from banks and others	202	1,103	1,114	
	Accounts payable -				
13	Trade	2,376	12,937	13,514	
14	Other	2,194	11,953	7,833	(*)
	Current liabilities	*4,772*	*25,993*	*22,461*	
15	Long-term debt	2,095	11,411	11,062	
2O;16	Convertible bonds	6,888	37,512	38,252	
9	Provision for loss of subsidiaries	638	3,474	2,224	(*)
17	Accrued severance pay, net	247	1,346	1,140	
2U;22	Deferred taxes	46	251	165	
	Long-term liabilities	*9,914*	*53,994*	*52,843*	
19	Commitments and contingent liabilities				
20	Share capital	65	352	352	
	Share premium	8,894	48,442	48,442	
	Receipts on account of warrants	124	676	676	
	Company shares held by the company	(106)	(574)	-	
	Accumulated loss	(5,183)	(28,231)	(28,855)	
	Shareholders' equity	*3,794*	*20,665*	*20,615*	
	Total liabilities and shareholders' equity	***18,480***	***100,652***	***95,919***	

(*) Re-classified.

(1) See Note 2F.
(2) See Note 2D.

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

Unitronics (1989) (R"G) Ltd.
Statements of Operations
Company

Notes		For the year ended December 31, 2005	For the year ended December 31, 2005	2004	2003
			(in thousands)		
		Convenience translation into EURO, (unaudited) (1)	Reported NIS (2)	Reported NIS (2)	Adjusted NIS (3)
2Q;21A	Revenues	14,228	77,495	59,689	39,403
21B	Cost of revenues	10,087	54,940	39,575	26,494
	Gross profit	*4,141*	*22,555*	*20,114*	*12,909*
2R;21C	Research & development expenses, net	1,030	5,608	4,169	3,055
21D	Selling & marketing expenses	1,231	6,707	6,173	5,598
21E	General & administrative expenses	1,109	6,042	4,010	3,178
	Operating profit	*771*	*4,198*	*5,762*	*1,078*
21F	Financing expenses, net	420	2,294	2,273	4,006
	Operating profit (loss) after financing expenses, net	*351*	*1,904*	*3,489*	*(2,928)*
	Other income (expenses), net	-	-	48	(9)
	Profit (loss) before taxes on income	*351*	*1,904*	*3,537*	*(2,937)*
2T;22	Taxes on income	7	35	32	111
	Profit (loss) after taxes on income	*344*	*1,869*	*3,505*	*(3,048)*
	The Company's share of subsidiaries losses	229	1,245	626	462
	Profit (loss) for the year	*115*	*624*	*2,879*	*(3,510)*
2V;24	*Profit (loss) per NIS 1 ordinary share (Israeli GAAP)*	*0.49*	*2.68*	*12.69*	*(19.61)*
27	Profit (loss) per share under International Financial Reporting Standards	*0.01*	*0.05*	*0.22*	*(0.39)*

(1) See Note 2F.
(2) See Note 2D.
(3) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.

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

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

	For the year ended December 31,	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	**Reported NIS (2)**	**Reported NIS (2)**	**Adjusted NIS (3)**
Profit (loss) for the year	115	624	2,879	(3,510)
The Company's share of subsidiaries losses	229	1,245	626	462
Depreciation and amortization	543	2,958	2,077	1,595
Profit from marketable securities, net	(445)	(2,425)	(396)	(90)
Capital (gain) loss	-	-	(48)	9
Increase (decrease) in accrued severance pay, net	38	206	72	(15)
Deferred taxes, net	6	35	32	111
Exchange rate changes of long-term debt and convertible bonds	18	97	326	1,470
Decrease (increase) in accounts receivable - trade	(467)	(2,542)	(1,381)	496
Increase in accounts receivable - other	(454)	(2,475)	(1,395)	(402)
Decrease (increase) in inventory	58	314	(3,389)	(1,963)
Decrease (increase) in inventory - work in progress	81	443	905	(1,348)
Increase (decrease) in accounts payable - trade	(51)	(277)	8,488	2,582
Increase in accounts payable - other	756	4,120	2,553	145
Cash flows provided by (used in) operating activities	*427*	*2,323*	*11,349*	*(458)*
Investment in marketable securities, net	(515)	(2,802)	(26,695)	142
Change in bank deposit	-	-	-	3,811
Investment in subsidiaries	-	-	(1)	-
Purchase of property and equipment	(290)	(1,576)	(4,156)	(3,980)
Sale of equipment	-	-	246	34
Investment in long-term deposits	(17)	(94)	(37)	(19)
Repayment of long-term deposits	5	26	20	34
Investment in patent	(20)	(110)	(58)	(6)
Investment in other assets	-	-	-	(154)
Cash flows used in investing activities	*(837)*	*(4,556)*	*(30,681)*	*(138)*
Deferred offering expenses	-	-	(4,184)	-
Loans received from bank	2,031	11,063	-	-
Repayment of long-term loans	(2,210)	(12,042)	(594)	(625)
Loans received from others	-	-	283	-
Short-term credit from banks, net	-	1	-	(635)
Receipts on account of warrants	-	-	676	-
Purchase of company shares by the company	(106)	(574)	-	-
Convertible bonds issue	-	-	33,153	-
Share capital issue	-	-	4,737	526
Expenses related to conversion of convertible bonds to share capital	-	-	-	(322)
Cash flows provided by (used in) financing activities	*(285)*	*(1,552)*	*34,071*	*(1,056)*
Increase (decrease) in cash and cash equivalents	*(695)*	*(3,785)*	*14,739*	*(1,652)*
Cash and cash equivalents at beginning of year	*3,788*	*20,630*	*5,891*	*7,543*
Cash and cash equivalents at end of year	*3,093*	*16,845*	*20,630*	*5,891*

(1) See Note 2F.
(2) See Note 2D.
(3) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.

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

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

	For the year ended December 31,	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	Reported NIS (2)	Reported NIS (2)	Adjusted NIS (3)
Appendix A - Non cash transactions				
Payables related to property and equipment	-	-	300	1,521
Conversion of convertible bonds	-	-	-	13,325

(1) See Note 2F.
(2) See Note 2D.
(3) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.

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

1. Unitronics (1989) (R"G) Ltd. (the "Company") was incorporated in August 1989.

2. The Company designs, develops, manufactures and markets Programmable Logic Controllers - which are specialized computer-based electronic devices used in an automation process to control machinery and other systems, and factory automation software solutions and system integration projects.

3. On November, 1999 the company completed an initial public offering of 1,600,000 ordinary shares on the Euro. NM in Belgium (Euronext).

4. On May, 2004 the company completed a public offering of 800,000 ordinary shares, 35,000,000 convertible bonds and 1,000,000 warrants on the Tel-Aviv stock exchange.

Note 2 - Significant Accounting Policies

A. Definitions

   1. Subsidiaries - Companies in which the Company holds shares representing in excess of 50% of ownership and voting rights.

   2. Related parties - as defined in Opinion No. 29 of the Institute of Certified Public Accountants in Israel (the "Israeli ICPA"), as follows:

      (a) Parties, which either directly or indirectly: (1) owns 10% or more of the issued share capital of the other company, or of its voting rights or of the rights to appoint its directors or; (2) has the right to appoint its Chief Executive Officer (CEO) or; (3) acts as its director or CEO; or

      (b) Any corporate body of which one of the parties mentioned in (a) above, owns 25% or more of the body's issued share capital, or of its voting rights or of the rights to appoint its directors; or

      (c) Spouses and minor children of parties mentioned in (a) above.

   3. Interested parties - as defined in the Israeli Securities Law:

      (a) The holder of 5% or more of the issued share capital or of the voting rights of a company, a person who has the right to appoint one or more members of the Board of Directors of the Company or its CEO, a person serving as the CEO or as a member of the Board, an entity in which a person as described above holds 25% or more of its issued share capital or of its voting rights, or has the right to appoint 25% or more of its Board members.

      (b) A subsidiary of a company, other than a nominee company.

   4. Israeli CPI - The Consumer Price Index as published by the Central Bureau of Statistics in Israel.

   5. NIS - New Israeli Shekel.

   6. USD - Dollar of the United States of America.

   7. EURO - Pan European currency.

B. Israeli Generally Accepted Accounting Principles

   The financial statements presented herein have been prepared in conformity with generally accepted accounting principles in Israel ("Israeli GAAP"), which, as applied to the Company, are substantially identical in all material respects to International Financial Reporting Standards (IFRS), except as explained in Note 27.

Note 2 - Significant Accounting Policies (cont'd)

C. Use of estimates in the preparation of financial statements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Discontinuance of the adjustment of financial statements for the effects of inflation and financial reporting in reported amounts

In 2001, the Israel Accounting Standards Board published Accounting Standard No. 12 with respect to the discontinuance of the adjustment of financial statements ("Standard No. 12"). According to this Standard (as amended by Accounting Standard No. 17), the adjustment of financial statements for the effects of inflation should be discontinued beginning January 1, 2004. The Company applied the provisions of the Standard, and accordingly, the adjustment for the effects of inflation was discontinued as from January 1, 2004 (Nominal historical financial statements for tax purposes - see Note 26).

1. Starting point for the preparation of financial statements

(a) In the past, the Company prepared its financial statements on the basis of the historical cost convention, adjusted for the changes in the general purchasing power of the Israeli currency based on the changes in the Israeli Consumer Price Index ("Israeli CPI"). These adjusted amounts, as included in the financial statements as of December 31, 2003 (the transition date), served as a starting point for nominal financial reporting beginning January 1, 2004. Additions made after the transition date are included at nominal values.

(b) The amounts for non-monetary assets do not necessarily represent realizable value or current economic value, but only the reported amounts for those assets.

(c) In the financial statements "cost" represents cost in the reported amount (see 2 below).

(d) Comparative data for the year 2003 are presented after adjustment for the Israeli CPI as of the transition date (the Israeli CPI for December 2003).

2. Financial statements in reported amounts

(a) Definitions
Adjusted amount - historical nominal amount adjusted for the Israeli CPI as of December 2003, according to the provisions of Opinions No. 23 and No. 36 of the Institute of Certified Public Accountants in Israel.
Reported amount - adjusted amount as of the transition date, plus additions in nominal values after the transition date and less amounts deducted after the transition date. The amounts deducted after the transition date are, in historical nominal values, adjusted amounts as of the transition date or in a combination of historical nominal values and adjusted amounts as of the transition date, according to the relevant situation.

(b) Balance sheet
1) Non-monetary items are presented in reported amounts.
2) Monetary items are presented in nominal values as of the balance sheet date.

(c) Statement of operations

1) Income and expenses relating to non-monetary items or provisions are derived from the change in the reported amount between the opening balance and the closing balance.
2) Other items in the statement of operations are presented in nominal values.

Note 2 - Significant Accounting Policies (cont'd)

D. Discontinuance of the adjustment of financial statements for the effects of inflation and financial reporting in reported amounts (cont'd)

2. Financial statements in reported amounts (cont'd)

(d) Rate of exchange and linkage base

1. Assets and liabilities in, or linked to, foreign currency have been stated on the basis of the representative exchange rate prevailing at the balance sheet date as published by the Bank of Israel. Balances linked to the Israeli CPI are stated as per the contractual linkage terms of the specific balance.

Details of Israeli CPI and the representative exchange rates are as follows:

	December 31, 2005	Change for the year ended December 31, 2005	December 31, 2004	Change for the year ended December 31, 2004	December 31, 2003	Change for the year ended December 31, 2003
Israeli CPI (in points) (*)	185.05	2.38%	180.74	1.21%	178.58	(1.88%)
Exchange rate of the EURO against the NIS	5.4465	(7.32%)	5.8768	6.21%	5.5331	11.34%
Exchange rate of the USD against the NIS	4.603	6.85%	4.308	(1.62%)	4.379	(7.56%)

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

2. Income and expenses in foreign currency have been included in the historical statements of operations under the relevant income and expense item, based on exchange rates prevailing at the date of the transaction.

3. Exchange rate and linkage differences arising from the adjustment of assets and liabilities which are in foreign currency or linked thereto or which are linked to the Israeli CPI have been included in the historical statements of operations, as incurred.

(e) Principles of adjustment for the financial statements up to December 31, 2003

Balance sheet:

The amounts for non-monetary items have been adjusted based on the changes in the Israeli CPI since their acquisition or incurrence till December 2003. Monetary items are presented in the adjusted balance sheet in their nominal amounts, comparative data have been adjusted to the Israeli CPI for December 2003 (published on January 15, 2004).
The amounts for non-monetary assets do not necessarily represent realization value or current economic value, but only the original historical value of those assets which have been adjusted according to the changes in the general purchasing power of the currency.

Statement of income:

1. The components of the statement of operations (except for financing), relating to transactions carried out during the year - income, expenses, etc. - have been adjusted at monthly indices at the time the related transactions were carried out or paid till December 2003.

2. The components of the statement of operations relating to non-monetary balance sheet items (mainly depreciation, capital gain (loss), etc.) have been adjusted on the same basis used for the adjustment of the related balance sheet items.

3. The components of the statement of operations relating to accruals and provisions included in the balance sheet, such as: accrued severance pay, net, accrued vacation pay, etc., have been determined based on the changes in the balances of the related balance sheet items after cash flows in respect thereof are taken into account.

Note 2 - Significant Accounting Policies (cont'd)

D. Discontinuance of the adjustment of financial statements for the effects of inflation and financial reporting in reported amounts (cont'd)

2. Financial statements in reported amounts (cont'd)

(e) Principles of adjustment for the financial statements up to December 31, 2003 (cont'd)

4. Current taxes on income include the erosion in the value of the payments from the date of payment to the balance sheet date.

5. The financing item, reflects real financial income or expenses including the erosion of monetary items during the year.

(f) Translation of financial statements of foreign operations

1. On January 1, 2004, Standard No. 13 with respect to the effect of changes in foreign exchange rates became effective ("Standard No. 13"). Standard No. 13 replaces Interpretations No. 8 and No. 9 of Opinion No. 36 of the Institute of Certified Public Accountants in Israel, which were superseded when Accounting Standard No. 12, as described above, became effective.

   Standard No. 13 deals with the translation of foreign currency transactions and with the translation of financial statements of foreign operations for incorporation into the financial statements of the Company.

2. The amounts in the financial statements of foreign operations that are integral to the operations of the Group companies are translated from foreign currency into Israeli currency as follows: non-monetary items are translated at historical exchange rates, monetary items are translated at the exchange rates as of the balance sheet date and the components of the statement of income are translated at average exchange rates. Differences arising from the translation are included in financial expenses or income.

E. The financial statements are presented in a format which, in management's opinion, reflects the nature of the activities of the Company.

F. 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 December 31, 2005 (EURO 1 = NIS 5.4465).

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

G. Principles of consolidation

1. The consolidated financial statements include the financial statements of the Company and of its subsidiaries.

2. Intercompany balances and transactions have been eliminated upon consolidation.

H. Cash and cash equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

I. Marketable securities

Marketable securities held for a short period of time, which can be realized immediately are presented according to their market value. The changes in the value of marketable securities are charged to the statement of operations when they occur.

Note 2 - Significant Accounting Policies (cont'd)

J. Inventory

Inventory is stated at the lower of cost or market value.

Cost is determined as follows:

- Raw and packing materials - on a weighted average basis.
- Work in process and finished products on the basis of cost of material, labor and other direct and indirect manufacturing expenses.

K. Inventory - work in progress

Work in progress presented at cost, however, not in excess of estimated selling price. Costs includes direct identifiable costs and joint indirect costs.

Customer advances are presented net of the portion included in the statement of operations based on the percentage of completion.

L. Investment in subsidiaries

Investment in subsidiaries is stated in the Company's financial statements according to the equity method, i.e.: at the cost of the shares plus post-acquisition gains (losses) as reflected by the subsidiaries financial statements.

M. Property and equipment

Property and equipment is stated at cost.
Depreciation is calculated by the straight-line method over the useful lives of the assets as estimated by management.

Annual rates of depreciation are as follows:

	%
Machinery and equipment	10 - 33
Motor vehicles	15
Office furniture and equipment	6 - 33
Buildings	2
Land	0

Improvements are added to the cost of the asset while the cost of repairs and maintenance are charged to expenses on a current basis.

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities for the preparation of the asset is in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are ready for their intended use.

N. Accounting for leases - where the Company is the lessee

Leases of property and equipment where the Company assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalized at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The rental obligations, net of finance charges, are included in long-term liabilities. The interest element of the finance charge is charged to the statement of operations over the lease period. The property and equipment acquired under finance leasing contracts is depreciated over the useful life of the asset.

Note 2 - Significant Accounting Policies (cont'd)

O. Convertible bonds

Convertible bonds are included on the basis of the probability of conversion, in accordance with criteria set forth in Statement no. 53 of the Institute of Certified Public Accountants in Israel. In the event that the conversion is not foreseeable, the debentures are included as a liability at their liability value; in the event conversion is likely, the debentures are stated between long-term liabilities and shareholders' equity at the greater of their liability value or capital value.

See also Note 2(X)(1) - the affects of Accounting Standard No. 22 in the period before application.

P. Convertible bonds offering expenses

Convertible bonds offering expenses are amortized according to the bonds length of life proportionally to balance of bonds remaining.

Q. Revenue recognition

1. Income arising from sale of products is recognized upon delivery to the customer, where the probability of collection is considered to be high.

2. Revenues from performance contracts are recognized on the percentage of completion basis provided that the revenues are fixed or can be reasonably estimated, collection is probable, costs related to performing the work are determinable or can be reasonably determined, there is no substantial uncertainty regarding the ability of the Company to complete the contract and to meet the contractual terms and the percentage of completion can be reasonably estimated. The percentage of completion is determined based on completion of engineering stages of the work. As for contracts in which a loss is anticipated, a provision is recorded for the full amount of the expected loss.

   If all the criteria for recognition of revenue from performance contracts are not met, then revenue is recognized up to the amount of costs incurred whose collection is probable ("zero profit margin" presentation).

R. Research and development

Research and development costs are charged to the statement of operations as incurred.

S. Provision for doubtful accounts

The provision for doubtful accounts is computed on an account-by-account basis.

T. Impairment of fixed and intangible assets:

The Company applies Accounting Standard No. 15, "Impairment of Assets". The Standard applies to the assets included in the balance sheet other than inventories, assets arising from construction contracts, assets arising from employee benefits, deferred tax assets and financial assets (with the exception of investments in affiliates). According to the Standard, whenever there is an indication that an asset may be impaired, the Company should determine if there has been an impairment of the asset by comparing the carrying amount of the asset to its recoverable amount. The recoverable amount is the higher of an asset's net selling price or value in use, which is determined based on the present value of estimated future cash flows expected to be generated by the continuing use of an asset and by its disposal at the end of its useful life. If the carrying amount of an asset exceeds its recoverable amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. An impairment loss recognized should be reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the impairment loss was recognized.

Note 2 - Significant Accounting Policies (cont'd)

U. Deferred income taxes

Deferred income taxes are computed in respect of temporary differences between the amounts included in these financial statements and those to be considered for tax purposes. Deferred taxes are computed at the enacted tax rates expected to be in effect, according to management's estimation, at the time when these taxes will be released to the statement of operations. Deferred tax assets are provided for when it is probable that all or part of the deferred tax assets will be realized in the foreseeable future.

V. Profit (loss) per share

Profit (loss) per share was calculated in accordance with Opinion No. 55 issued by the Israeli ICPA on the basis of the weighted average share capital (per NIS 1 ordinary shares - see Note 24). For the convenience of the reader profit (loss) per share figures in accordance with the IFRS are presented in the statement of operations together with profit (loss) per share figures in accordance with the Israeli GAAP (see Note 27).

See also Note 2 (X)(5) - The affects of Accounting Standard No. 21 in the period before application.

W. Initial application of Accounting Standard No. 19 - "Taxes on Income"

Since January 1, 2005 the company Implements Accounting Standard No.19 - "Taxes on Income" ("the standard"). The standard determines the rules for the recognition, measurement, presentation and the disclosure of taxes on income in the financial statements. The main change determined by the standard in relation to the rules applied today, is the recognition of deferred taxes for timing differences relating to land property.

The new standard had no material effect on the company operational results, financial position and its cash flows.

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

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

   This Standard prescribes principles for the presentation of financial instruments and identifies the information that should be disclosed about them 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. The Standard will be applicable to financial statements for periods commencing on or after January 1, 2006 ("the effective date").

   The effect of the initial application of the new Standard on the financial position, results of operations and cash flows of the company is not expected to be material.

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

   This Standard requires the Company to recognize share-based payment transactions in its financial statements in respect to 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. Concurrently with the recognition of the goods or services received, it is necessary to recognize in the financial statements an increase in shareholders' equity when the share-based payment transaction will be settled in equity instruments and the incurrence of a liability when this transaction will be settled in cash. This contrasts with the situation prevailing prior to the effective date in which certain types of the above mentioned transactions were not reflected in the financial statements.

Note 2 - Significant Accounting Policies (cont'd)

X. Disclosure of the effects of new Accounting Standards prior to their adoption (con't)

2. (con't)
   The Standard will be applicable to financial statements for periods commencing on or after January 1, 2006 ("the effective date").
   For equity-settled share-based payment transactions, the Standard is applicable to grants made subsequent to March 15, 2005, and which had not yet vested as of the effective date. The Standard will also be applicable to modifications that were made to the terms of equity-settled transactions subsequent to March 15, 2005, even if the modifications relate to grants that were made before this date. 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 Standard prescribes that transactions with employees or others which supply similar services in return for equity instruments should be measured according to their fair value on the date in which such equity instruments were granted. The Standard also prescribes certain requirements if the terms of an option or share grant are modified. As for share-based transactions with parties other than employees, the fair value of the goods or services received must be measured upon receipt. Furthermore, if the equity instruments granted do not vest until the counterparty completes a specified period of service, the services will be recognized in the financial statements over the vesting period.

   The effect of the initial application of the new Standard on the financial position, results of operations and cash flows of the company is not expected to be material.

3. In February 2006, the Israel Accounting Standards Board published 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 recognizing each type of revenue. The basic principle is that revenues should be measured at the fair value of the consideration received and/or receivable. If the consideration is not received on the date of the transaction, the revenue should be measured by discounting the future consideration using the prevailing market rate of interest. The Standard also prescribes that in cases where components of one transaction may be separately identified, revenue should be measured separately for each component if that reflects the substance of the transaction. The Standard stipulates that revenues recognized in the financial statements should only include the amounts received and/or receivable by the Company on its own account. Accordingly, amounts collected on behalf of a third party are not revenues of the Company.

   In order to determine whether the Company is required to report its revenues on a gross basis (since it acts as a principal supplier) or on a net basis (since it performs as an agent), Interpretation No. 8, "Reporting Revenues on a Gross or Net Basis" was published concurrently with this Standard ("the Interpretation"). Pursuant to the Interpretation, recognition of revenues on a gross or net basis shall be determined in accordance with the distribution of the risks and rewards resulting from the transaction. The Interpretation sets forth indicators which should be taken into consideration in determining the basis of reporting (gross or net).

   The Standard and Interpretation will be applicable to financial statements for periods beginning on January 1, 2006 and thereafter.

   As for amounts reported as revenues but represent amounts collected on behalf of a third party in accordance with the Standard, or for revenues which had not been reported on a gross or net basis, as required by the Interpretation, the relevant provisions of the Standard and Interpretation are to be applied retrospectively, including a restatement of the comparative data. Furthermore, assets and liabilities included in the balance sheet as of December 31, 2005, are to be adjusted, as of January 1, 2006, to the amounts that would have been recognized in accordance with the provisions of the Standard, with the effect of the adjustment being recorded in the statement of income for the period beginning as of that date ("cumulative effect of change in accounting principle").

   The effect of the initial application of the new Standard on the financial position, results of operations and cash flows of the company is not expected to be material.

Note 2 - Significant Accounting Policies (cont'd)

X. Disclosure of the effects of new Accounting Standards prior to their adoption (con't)

4. In March 2006, the Israel Accounting Standards Board published Accounting Standard No. 20 (Revised), "Accounting for Goodwill and Intangible Assets upon Acquisition of Investee" ("the Standard"). The Standard is applicable to financial statements for periods commencing on January 1, 2006 ("the effective date").

   The Standard determines that the excess of cost of an investment in an investee should also be attributed to the investee's identifiable intangible assets, as opposed to the rules applied so far according to which the excess of cost of an investment was generally only attributed to tangible assets. Cost of the acquisition is allocated to an intangible asset only if it satisfies the Standard's criteria for recognition as an intangible asset which include, inter alia, identifiability and the ability to reliably measure the fair value. The Standard distinguishes between intangible assets with a finite useful life and intangible assets with an indefinite useful life. Prior to the issuance of the Standard, there were no specific principles for identifying and allocating the cost of an acquisition to an investee's intangible assets.

   The Standard further determines that negative goodwill created upon the acquisition, after deduction of the investee's intangible and non-monetary assets, should be immediately recognized upon the date of acquisition as a gain in the statement of income and not systematically amortized as was required prior to the effective date of the Standard. Positive goodwill and intangible assets with an indefinite useful life will no longer be amortized. The Standard requires an annual assessment, or more frequently if certain indicators exist, of an impairment in goodwill in respect of a subsidiary or a jointly controlled entity, or of intangible assets with an indefinite useful life. Furthermore, each period, events and circumstances should be reviewed to determine whether they continue to support an assessment that the useful life of the assets is indefinite. Intangible assets with a finite useful life are to be systematically amortized and will also be subject to an evaluation for impairment. The impairment of goodwill in respect of an affiliate will be accounted for in the context of the evaluation of impairment of the entire investment. The accounting for impairment is to be performed in accordance with Accounting Standard No. 15, "Impairment of Assets".

   The transition provisions prescribe that comparative data for the periods prior to the effective date should not be restated. The balance of goodwill as of the effective date will no longer be amortized and, from that date, the impairment of goodwill will be evaluated as described above. The balance of negative goodwill as of December 31, 2005, is to be derecognized as of the effective date with a corresponding adjustment to the opening balance of retained earnings.

   The effect of the initial application of the new Standard on the financial position, results of operations and cash flows of the company is not expected to be material.

5. In February 2006, the Israel Accounting Standards Board published 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 when 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 minus 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.

Note 2 - Significant Accounting Policies (cont'd)

X. Disclosure of the effects of new Accounting Standards prior to their adoption (con't)

5. (con't)

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 investor's share of earnings of an investee is to be included based on the investor's share in the earnings per share of the investee multiplied by the number of shares held by the investor.

This Standard is applicable to financial statements for periods beginning on January 1, 2006 and thereafter. Comparative data for earnings per share will be retrospectively restated.

Note 3 - Cash and cash equivalents

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

	December 31, 2005	December 31, 2005	December 31, 2004
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Israeli currency	711	3,870	4,648
Foreign currency	2,565	13,972	16,299
	3,276	*17,842*	*20,947*

Unitronics (1989) (R"G) Ltd.
Company

	December 31, 2005	December 31, 2005	December 31, 2004
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Israeli currency	679	3,700	4,556
Foreign currency	2,414	13,145	16,074
	3,093	*16,845*	*20,630*

Note 4 - Marketable securities

Unitronics (1989) (R"G) Ltd.
Consolidated and company

	December 31, 2005	December 31, 2005	December 31, 2004
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
NIS bonds			
Linked to Israeli CPI	2,955	16,096	12,603
Linked to USD	463	2,523	1,925
Unlinked	710	3,869	3,793
USD bonds	1,997	10,875	9,815
	6,125	33,363	28,136

Note 5 - Accounts receivable - trade

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

	December 31, 2005	*December 31, 2005*	*December 31, 2004*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Related to work in progress in connection with long-term contracts (*):			
Open accounts	897	4,887	1,005
Income receivable	338	1,837	2,421
	1,235	6,724	3,426
Others:			
Open accounts	702	3,826	3,590
Post-dated checks receivable	1	5	69
	703	3,831	3,659
	1,938	10,555	7,085
Provision for doubtful accounts	(83)	(452)	(223)
	1,855	*10,103*	*6,862*

Consolidated and Company

(*) Recognized revenues related to work in progress	7,434	40,486	21,126
Less amounts received from customers in respect of work in progress	6,324	34,444	18,129
	1,110	6,042	2,997
VAT related to open accounts	125	682	429
	1,235	*6,724*	*3,426*
The contracts amounts signed during the period	*6,132*	*33,396*	*52,412*
Balance of contracts amounts where revenues were not recognized	*3,940*	*21,458*	*29,581*

Note 5 - Accounts receivable - trade (cont'd)

Unitronics (1989) (R"G) Ltd.
Company

	December 31, 2005	December 31, 2005	December 31, 2004
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Related to work in progress in connection with long-term contracts:			
Open accounts	897	4,887	1,005
Income receivable	338	1,837	2,421
	1,235	6,724	3,426
Others:			
Open accounts	398	2,167	2,673
Post-dated checks receivable	- (*)	3	60
	398	2,170	2,733
	1,633	8,894	6,159
Provision for doubtful accounts	(72)	(394)	(201)
	1,561	*8,500*	*5,958*

(*) Less than EURO 1,000.

Note 6 - Accounts receivable - other

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

	December 31, 2005	December 31, 2005	December 31, 2004
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Government institutions	8	46	114
Prepaid expenses	47	257	240
Income tax	109	591	486
Others	25	135	63
	189	*1,029*	*903*

Unitronics (1989) (R"G) Ltd.
Company

	December 31, 2005	December 31, 2005	December 31, 2004
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Government institutions	6	34	114
Subsidiaries (*)	1,091	5,942	3,498
Prepaid expenses	47	257	235
Income tax	93	509	477
Others	23	120	63
	1,260	*6,862*	*4,387*

(*) Mainly linked to the exchange rate of the USD.

Note 7 - Inventory

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

	December 31, 2005	December 31, 2005	December 31, 2004
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Raw and packing materials	646	3,518	3,744
Work in process	533	2,902	3,747
Finished products	556	3,031	2,294
	1,735	*9,451*	*9,785*

Unitronics (1989) (R"G) Ltd.
Company

	December 31, 2005	December 31, 2005	December 31, 2004
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Raw and packing materials	646	3,517	3,744
Work in process	533	2,902	3,747
Finished products	514	2,804	2,046
	1,693	*9,223*	*9,537*

Note 8 - Inventory - work in progress

Unitronics (1989) (R"G) Ltd.
Consolidated and Company

	December 31, 2005	December 31, 2005	December 31, 2004
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Cost of work performed	6,752	36,774	29,602
Less amounts charged to statements of operations	6,752	36,774	25,328
Less amounts presented net of customer's advances	-	-	3,831
	-	-	*443*

Note 9 - Investment in subsidiaries

A. Details of the subsidiaries, their activities and the rate of holdings therein as at December 31, 2005 and 2004:

1. Unitronics Inc. (hereinafter "Unitronics U.S.A").
   The company holds 100% of the equity and control of Unitronics U.S.A. Unitronics U.S.A was established in the United States of America in 2001 by the company in order to further the marketing, sale and distribution of its range of products in the U.S.A. Unitronics U.S.A commenced its operations in June 2001.
2. Unitronics building management and maintenance Ltd. (hereinafter "Unitronics building").
   The company holds 100% of the equity and control of Unitronics building. Unitronics building was established in 2003 by the company in order to manage and maintain the companies building. Unitronics bulding commenced it's operations in January 2004.

B. Composition

Unitronics (1989) (R"G) Ltd.
Company

	December 31, 2005	*December 31, 2005*	*December 31, 2004*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Cost of shares	- (*)	1	1
Company's share of losses	(623)	(3,395)	(2,150)
	(623)	*(3,394)*	*(2,149)*
Presented in invesments in subsidiaries	*15*	*80*	*75*
Presented in long term liabilities	*(638)*	*(3,474)*	*(2,224)*

(*) Less than EURO 1,000.

Note 10 - Property and equipment

Unitronics (1989) (R"G) Ltd. Consolidated	***Land and Buildings (*)***	***Machinery and Equipment***	***Motor vehicles***	***Office furniture and Equipment***	***Total***
	Reported NIS in thousands				
Cost					
Balance as at January 1, 2005	20,717	3,046	1,124	1,564	26,451
Additions	165	1,054	-	118	1,337
Balance as at December 31, 2005	*20,882*	*4,100*	*1,124*	*1,682*	*27,788*
Accumulated depreciation					
Balance as at January 1, 2005	996	1,880	296	659	3,831
Depreciation during the year	574	631	138	143	1,486
Balance as at December 31, 2005	1,570	*2,511*	*434*	*802*	*5,317*
Net book value as at December 31, 2005	*19,312*	*1,589*	*690*	*880*	*22,471*
Net book value as at December 31, 2004	*19,721*	*1,166*	*828*	*905*	*22,620*

Unitronics (1989) (R"G) Ltd. Consolidated	***Land and Buildings(*)***	***Machinery and Equipment***	***Motor vehicles***	***Office furniture and Equipment***	***Total***
	Convenience translation into Euro, (unaudited) (in thousands)				
Cost					
Balance as at January 1, 2005	3,804	559	206	287	4,856
Additions	30	194	-	22	246
Balance as at December 31, 2005	*3,834*	*753*	*206*	*309*	*5,102*
Accumulated depreciation					
Balance as at January 1, 2005	183	345	54	121	703
Depreciation during the year	105	116	26	26	273
Balance as at December 31, 2005	*288*	*461*	*80*	*147*	*976*
Net book value as at December 31, 2005	*3,546*	*292*	*126*	*162*	*4,126*

(*) Includes specific capitalized financing costs (NIS 1,015 thousand, EURO 186 thousand, as at December 31, 2004 and 2005), which was capitalized until the company populated the building on November 17, 2002. The building is located in Kiriat Sde Hateufa, on land leased from the government (Minhal). The land is leased for a period of 49 years and has been capitalized (91%). To the date of this report the leased rights have not yet been registered in the company's name.

Note 10 - Property and equipment (cont'd)

Unitronics (1989) (R"G) Ltd. Company	*Land and Buildings (*)*	*Machinery and Equipment*	*Motor vehicles*	*Office furniture and Equipment*	*Total*
			Reported NIS in thousands		
Cost					
Balance as at January 1, 2005	20,717	3,046	1,124	1,369	26,256
Additions	165	1,054	-	57	1,276
Balance as at December 31, 2005	*20,882*	*4,100*	*1,124*	*1,426*	*27,532*
Accumulated depreciation					
Balance as at January 1, 2005	996	1,880	296	621	3,793
Depreciation during the year	574	631	138	97	1,440
Balance as at December 31, 2005	1,570	2,511	434	718	5,233
Net book value as at December 31, 2005	*19,312*	*1,589*	*690*	*708*	*22,299*
Net book value as at December 31, 2004	*19,721*	*1,166*	*828*	*748*	*22,463*

Unitronics (1989) (R"G) Ltd. Company	**Convenience translation into Euro, (unaudited)**				
	Land and Buildings(*)	*Machinery and Equipment*	*Motor vehicles*	*Office furniture and Equipment*	*Total*
			(in thousands)		
Cost					
Balance as at January 1, 2005	3,804	559	206	251	4,820
Additions	30	194	-	11	235
Balance as at December 31, 2005	*3,834*	*753*	*206*	*262*	*5,055*
Accumulated depreciation					
Balance as at January 1, 2005	183	345	54	114	696
Depreciation during the year	105	116	26	18	265
Balance as at December 31, 2005	*288*	*461*	*80*	*132*	*961*
Net book value as at December 31, 2005	*3,546*	*292*	*126*	*130*	*4,094*

(*) Includes specific capitalized financing costs (NIS 1,015 thousand, EURO 186 thousand, as at December 31, 2004 and 2005), which was capitalized until the company populated the building on November 17, 2002. The building is located in Kiriat Sde Hateufa, on land leased from the government (Minhal). The land is leased for a period of 49 years and has been capitalized (91%). To the date of this report the leased rights have not yet been registered in the company's name.

Note 11 - Other assets

Unitronics (1989) (R"G) Ltd. Consolidated and Company	*December 31, 2005*	*December 31, 2005*	*December 31, 2004*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Deferred taxes (*)	61	336	285
Patents and licenses	27	144	108
Deferred offering expenses	514	2,799	3,764
	602	*3,279*	*4,157*

(*) See Note 22.

Note 12 - Credit from banks and others

Unitronics (1989) (R"G) Ltd. Consolidated	*December 31, 2005*	*December 31, 2005*	*December 31, 2004*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Credit from banks - in NIS	- (*)	1	13
Current maturities of long-term debt	202	1,102	1,114
	202	*1,103*	*1,127*

(*) Less than EURO 1,000.

Unitronics (1989) (R"G) Ltd. Company	*December 31, 2005*	*December 31, 2005*	*December 31, 2004*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Credit from banks - in NIS	- (*)	1	-
Current maturities of long-term debt	202	1,102	1,114
	202	*1,103*	*1,114*

(*) Less than EURO 1,000.

Note 13 - Accounts payable - trade

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

	December 31, 2005	December 31, 2005	December 31, 2004
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Suppliers	1,956	10,650	10,945
Post-dated checks payable	458	2,496	2,785
	2,414	*13,146*	*13,730*

Unitronics (1989) (R"G) Ltd.
Company

	December 31, 2005	December 31, 2005	December 31, 2004
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Suppliers	1,917	10,441	10,729
Post-dated checks payable	459	2,496	2,785
	2,376	*12,937*	*13,514*

Note 14 - Accounts payable - other

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

	December 31, 2005	December 31, 2005	December 31, 2004
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Government institutions	-	-	3
Employees, payroll and taxes	459	2,500	2,075
Accrued expenses	1,271	6,924	4,451
Customers' advances (*)	190	1,036	938
Prepaid income	328	1,783	361
Others	11	62	67
	2,259	*12,305*	*7,895*

Note 14 - Accounts payable - other (cont'd)

Unitronics (1989) (R"G) Ltd. Company	December 31, 2005	December 31, 2005	December 31, 2004
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Employees, payroll and taxes	456	2,487	2,070
Accrued expenses	1,203	6,585	4,328
Consolidated company	-	-	69
Customers' advances (*)	190	1,036	938
Prepaid income	328	1,783	361
Others	11	62	67
	2,194	*11,953*	*7,833*
Consolidated and Company			
(*) Amounts received from customers in respect of work in progress	626	3,412	14,906
Less revenues charged to statement of operations	436	2,376	10,137
Less cost of work in progress	-	-	3,831
	190	*1,036*	*938*

Note 15 - Long term debt

A. Consisting of the following:

Unitronics (1989) (R"G) Ltd. Consolidated and Company	Annual Interest Rates %	December 31, 2005	December 31, 2005	December 31, 2004
			(in thousands)	
		Convenience translation into EURO, (unaudited)	Reported NIS	
Long-term bank debt				
Linked to the USD	Libor+2.02	1,014	5,524	5,233
Linked to the EURO	Libor+2.02	1,015	5,528	-
Unlinked in NIS		-	-	6,275
Less current maturities		-	-	(948)
		2,029	*11,052*	*10,560*
Long-term debt from others				
Motor vehicles lessors - linked to the Israeli CPI	6 - 11.23	95	517	668
Less current maturities		(29)	(158)	(166)
		66	*359*	*502*
		2,095	*11,411*	*11,062*

Note 15 - Long term debt (cont'd)

B. Aggregate maturities are as follows:

Unitronics (1989) (R"G) Ltd.
Consolidated and Company

	December 31, 2005	*December 31, 2005*	*December 31, 2004*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Second year	211	1,149	6,477
Third year	208	1,131	639
Fourth year	200	1,093	621
Fifth year	185	1,005	584
Sixth year and thereafter	1,291	7,033	2,741
	2,095	*11,411*	*11,062*

Note 16 - Convertible bonds (consolidated and company)

A. In February 2001, the company issued 634,250 convertible bonds, at a subscription price of 4.73 Euro per bond; the conversion rate is 1 share per bond. The bonds conversion is allowed at any time until the maturity date of February 7, 2006.
The bonds are linked to the EURO-NIS exchange rate, and bear interest of 4% per annum (payable on February each year). The redemption price consists of a payment of 115% of the subscription price (the excess is allocated proportionally over the period until the maturity date), which will be paid in one payment on the maturity day.
On December 18, 2003 the general meeting of the company's shareholders approved modifications to certain convertible bonds subscription agreements, which released the company from a major part of the fiscal debt owed under the original agreement while allowing for a dilution of shareholders at a price per share which is lower than the original conversion price (see below).
Accordingly, on December 28, 2003 475,687 convertible bonds were converted into 1,902,748 ordinary shares at a subscription price of 1.1825 EURO per bond (rather than 4.73 EURO), while the bond holders of those certain bonds, waived all rights to any interest or other payments which remain due and payable in respect of such sum pursuant to the original agreement. The remaining bonds will continue to be convertible into ordinary shares of the company, at price of 4.73 Euro per share.
Furthermore, it has been approved that the remaining amount of bonds will continue to bear the original 15% redemption. The annual interest of 4% will be increased to 8.13% (payable per quarter) as of February 2006. Until then the annual interest will continue to be 4%. Commencing May 2006, the bonds debt will be repaid in 10 quarterly installments.

B. During May 2004 the company issued a series of convertible bonds (series 1) totaling par value NIS 35 million of NIS 0.02 par value each one (in exchange for 95% of their par value) which are repayable in 4 yearly equivalent installments beginning May 23, 2007. The bonds are linked to the prevailing rate of exchange of the dollar and bear interest of Libor for six months plus 2.5% per annum.

The bonds may be converted to ordinary shares from the date of registration for trade on the Stock Exchange until May 9, 2010. Each NIS 9 par value of bond may be converted into 1 ordinary share of the company.

Note 16 - Convertible bonds (consolidated and company) (cont'd)

C. Consisting of the following:

Unitronics (1989) (R"G) Ltd. Consolidated and company	*December 31, 2005*	*December 31, 2005*	*December 31, 2004*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Bonds linked to USD	6,444	35,098	35,000
Bonds linked to EURO	683	4,698	5,069
	7,307	39,796	40,069
Less discount, net	246	(1,340)	(1,817)
	7,061	38,456	38,252
Less current maturities	(173)	(944)	-
	6,888	37,512	38,252

D. Aggregate maturities are as follows:

Unitronics (1989) (R"G) Ltd. Consolidated and Company	*December 31, 2005*	*December 31, 2005*	*December 31, 2004*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Second year	1,880	10,240	1,007
Third year	1,894	10,318	10,231
Fourth year	1,557	8,477	10,314
Fifth year	1,557	8,477	8,350
Sixth year and thereafter	-	-	8,350
	6,888	*37,512*	*38,252*

Note 17 - Accrued severance pay, net

Under Israeli law and labor agreements, the Company is required to make severance payments to its dismissed employees and employees leaving employment under certain other circumstances.

The Company's severance pay liability to its employees, calculated on the basis of the employee's latest monthly salary multiplied by the number of years of employment, and which is not covered by insurance policies, is reflected in the Company's balance sheet on the accrual basis.

The amounts deposited in insurance policies are not included in the balance sheet, since they are not under the control and management of the Company.

Note 17 - Accrued severance pay, net (cont'd)

The outstanding liability and amounts funded at central approved severance pay funds as at balance sheet date are as follows:

Unitronics (1989) (R"G) Ltd. Consolidated and Company	December 31, 2005	December 31, 2005	December 31, 2004
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Accrued severance pay	501	2,730	2,162
Less - amounts funded	254	1,384	1,022
	247	*1,346*	*1,140*

Note 18 - Monetary Assets and Liabilities Classified by Linkage Basis

Unitronics (1989) (R"G) Ltd. Consolidated	December 31, 2005					
	Israeli currency		Other currencies			
	Not linked	Linked to the Israeli CPI	Other currencies	US dollars	Euro	Total
Reported NIS, (audited), (in thousands)						
Current assets	14,931	16,687	-	18,765	11,697	62,080
Current liabilities	(19,256)	(158)	-	(397)	(5,645)	(25,456)
Long-term liabilities	(1,346)	(359)	-	(39,432)	(9,132)	(50,269)
	(5,671)	*16,170*	-	*(21,064)*	*(3,080)*	*(13,645)*
Convenience translation into EURO, (unaudited), (in thousands)						
Current assets	2,741	3,064	-	3,445	2,148	11,398
Current liabilities	(3,529)	(29)	-	(73)	(1,036)	(4,667)
Long-term liabilities	(247)	(66)	-	(7,240)	(1,677)	(9,230)
	(1,035)	*2,969*	-	*(3,868)*	*(565)*	*(2,499)*

Unitronics (1989) (R"G) Ltd. Consolidated	December 31, 2004					
	Israeli currency		Other currencies			
	Not linked	Linked to the Israeli CPI	Other currencies	US dollars	Euro	Total
Reported NIS, (audited), (in thousands)						
Current assets	13,261	13,089	-	16,526	13,732	56,608
Current liabilities	(16,070)	(166)	(14)	(957)	(4,871)	(22,078)
Long-term liabilities	(6,965)	(502)	-	(38,137)	(4,850)	(50,454)
	(9,774)	*12,421*	*(14)*	*(22,568)*	*4,011*	*(15,924)*

The above table reflects the exposure of the Company's consolidated monetary balances to the effect of changes in the rate of exchange of the USD, Euro and other currencies as well as to changes in the Israeli CPI as at the indicated balance sheet date.

Note 19 - Commitments and Contingent Liabilities

A. Contingent liabilities

1. The Company is committed to pay royalties to the Government of Israel on proceeds from sales of products funded in part, by Government grants. At the time the grants were received, successful development of the related projects was not assured. The royalty rates vary from 2% to 5% of gross sales of a product or development resulting from the research. Royalties are payable up to 100% of the amount of such grants. The contingent liability in respect of royalties to the Government at December 31, 2004 amounts to NIS 2,397 thousands (EURO 440 thousands).

2. 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. A hearing in the matter was held in February 2006, in which it was decided that IMO waives its arguments of lack of international jurisdiction and would argue only against the application to appoint an arbitrator. 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 - this lawsuit was heard in summary procedure and dismissed on the merits in a judgment from June 7, 2005 (IMO appealed the decision, and a hearing has been scheduled for September 2006). 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 for more than one million Euro, in respect of the company's termination and alleged breach of the agreement and unfair competition. A hearing in the claim was held after the balance sheet date, in which Unitronics argued that the court lacks jurisdiction. The court is expected to hand down a decision within several months. According to the legal advisors of the company the results of this procedure can not be currently estimated.
In September 2005 the company filed a claim in the court in Israel against IMO's parent company, and against its owner as well as its manager. In this claim the company is suing the defendants for EURO 1 million in respect of bad faith conduct in the IMO purchase, as regards relations with the company, knowledge of the existing agreement between the company and IMO, and termination of the relations with the company. In addition, the company is suing on causes related to the defendants' attempts to gain control of the French market. The claim was served on some of the defendants, and no statement of defense has been submitted as yet. According to the opinion of the legal advisors of the company the results of this procedure can not be currently estimated.

B. Mortgages and guarantees

In order to secure the company's liability in respect of financial leasing, the rights to the leased cars were liened to the leasing companies. Furthermore, in order to secure the company's liabilities to the bank, the company mortgaged with a first fixed and floating charge the building, notes, documents and securities deposited or which will be deposited in the bank. Similarly a first charge was placed on guarantees given to the company. Additionally, in order to secure an implementation of projects the company gave guarantees to customers in the total amount of NIS 9,077 thousands (EURO 1,666 thousands).

Note 20 - Share Capital

A. Composition

	Number of shares, (audited) *December 31, 2005*		Number of shares, (audited) *December 31, 2004*	
	Authorized	Issued and fully paid	Authorized	Issued and fully paid
Ordinary shares of NIS 0.02 each	100,000,000	11,676,546	100,000,000	11,676,546

Note 20 - Share Capital (con't)

B. Option plan

The Company maintains three share option plans (1999, 2001 and 2003 Share Option Plans), pursuant to which share options in the Company may be granted to employees, officers, directors and consultants of the Company or its subsidiaries. Pursuant to the 1999, 2001 and 2003 Option Plans, 440,000, 950,000 and 1,000,000 ordinary shares were reserved, respectively, for issuance under these plans. As of the date of publishing the financial statements, options to purchase 435,250, 790,499 and 502,000 ordinary shares have been granted under the 1999, 2001 and 2003 option plans respectively. 350,250, 16,000 and 36,000 options under the 1999, 2001 and 2003 option plans, respectively, were expired as of December 31, 2005 accordingly to the options terms, without exercise. 50,000 and 35,000 options exercisable under the 1999 plan at respective prices of EURO 1 and 10% less than the share price in the market, 368,500, 39,999, 15,000 and 348,000 options exercisable under the 2001 plan at respective prices of EURO 2.7, EURO 4.73, EURO 4.75 and EURO 0.91, 466,000 options exercisable under the 2003 plan at respactive price of EURO 1.3 . Under the option plans, the exercise price of options shall be determined by the board of directors, according to the option plans terms. The vesting schedule of the options is also determined by the board of directors. The options vest either immediately, or over a period of between one to four years and are typically exercisable for a period of four to five years. The 1999, 2001 and 2003 Option Plans expire in the years 2009, 2011 and 2013 respectively.

C. In January 2003 the company completed a private placement of 109,410 ordinary shares at the price of 1.022 EURO per share. The net amount raised was NIS 526 thousands (EURO 96 thousands).

D. In December 28, 2003 475,687 convertible bonds were converted into 1,902,748 ordinary shares at a subscription price of EURO 1.1825 per bond (see Note 16).
As a result of the convertion the equity of the company increased by NIS 13,003 thousands (EURO 2,218 thousands).

E. In May 2004 the company completed a public offering of 800,000 ordinary shares at the Tel Aviv stock exchange.
Additionally, the company issued a series of 1,000,000 warrants (series no. 1), such that each warrant may be exercised to a regular share for the exercise price of NIS 7.55 which is linked to the prevailing rate of the US Dollar. The warrants are exercisable from the date of registration on the stock exchange up to May 23, 2008. Furthermore the company issued a series of convertible bonds (series no. 1) as explained in Note 16B.

The net amount raised (after a deduction of offering expenses) was approximately NIS 34 million (approximately EURO 6 million).

F. In June 2004 the company issued 300,000 warrants (series no. 1) for no consideration to three underwriters of the Israeli prospectus.

G. In July 2004 the company published a prospectus in Belgium in order to register 7,875,200 ordinary shares for trade on the Belgium stock exchange. These shares were offered in the Israeli prospectus and/or originated from the realisation of convertible securities which were issued in accordance with the Israeli prospectus. On July 12, 2004 a further 800,000 ordinary shares which were offered and issued by the Israeli prospectus were registered for trading on the Belgium stock exchange. The maximum amount of 7,075,200 ordinary shares which originate from the realisation of convertible securities in accordance with the Israeli prospectus will be registered for trading on the Belgium stock exchnge at a later date in accordance with the realisation of the convertible securities and subject to the notification of the company to the Belgium authorities.

H. As of August 2005, the Company purchases ordinary shares of the Company, from time to time, within the framework of trade on the Tel Aviv Stock Exchange. As of December 31, 2005 the company holds 118,525 shares (aprox. 1% of the company's issued shares) purchased at a cost of NIS 574 thousands (EURO 106 thousands).

Note 21 - Statements of Operations Data

A. Principal customers

The revenues include revenues from principal customers (which each one constitute in excess of 10% of the revenues of the Company):

Unitronics (1989) (R"G) Ltd. Consolidated and Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Customer A	1,536	8,364	10,383	-
Customer B	2,988	16,274	7,140	-
Customer C	123	669	3,390	14,346
Customer D	676	3,680	3,047	2,187

B. Cost of revenues

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Materials consumed and subcontractors	7,980	43,464	32,969	21,552
Payroll and related benefits	1,523	8,296	5,920	4,436
Changes in work in process and finished products	20	108	(1,995)	(1,732)
Depreciation	91	497	277	256
Other expenses	594	3,234	2,898	1,971
	10,208	*55,599*	*40,069*	*26,483*

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Materials consumed and subcontractors	7,980	43,464	32,969	21,552
Payroll and related benefits	1,523	8,296	5,920	4,436
Changes in work in process and finished products	16	87	(1,978)	(1,721)
Depreciation	91	497	277	256
Other expenses	477	2,596	2,387	1,971
	10,087	54,940	*39,575*	*26,494*

Note 21 - Statements of Operations Data (cont'd)

C. Research and development expenses, net

Unitronics (1989) (R"G) Ltd. Consolidated and Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
	(in thousands)			
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Payroll and related benefits	704	3,837	3,111	2,184
Subcontractors	53	286	172	509
Other expenses	280	1,525	1,251	609
Less - government participation	*(7)*	*(40)*	*(365)*	*(247)*
	1,030	*5,608*	*4,169*	*3,055*

D. Selling and marketing expenses

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
	(in thousands)			
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Salaries and related benefits	827	4,506	3,516	3,153
Travel and marketing abroad	102	556	436	379
Exhibits, advertising and other expenses	818	4,455	3,794	3,135
	1,747	*9,517*	*7,746*	*6,667*

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
	(in thousands)			
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Salaries and related benefits	670	3,649	3,053	2,720
Travel and marketing abroad	102	556	436	379
Exhibits, advertising and other expenses	459	2,502	2,684	2,499
	1,231	*6,707*	*6,173*	*5,598*

Note 21 - Statements of Operations Data (cont'd)

E. General and administrative expenses

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Salaries and related benefits	524	2,854	1,722	1,564
Office rent, maintenance and communications	80	438	221	247
Depreciation	160	870	769	661
Professional services	375	2,041	1,418	773
Bad and doubtful debts	42	229	17	59
Others	82	446	544	276
	1,263	*6,878*	*4,691*	*3,580*

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Salaries and related benefits	524	2,854	1,722	1,564
Office rent, maintenance and communications	21	112	60	74
Depreciation	151	825	745	654
Professional services	321	1,750	1,238	670
Bad and doubtful debts	35	193	-	18
Others	57	308	245	198
	1,109	*6,042*	*4,010*	*3,178*

Note 21 - Statements of Operations Data (cont'd)

F. Financing expenses, net

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

	For the year ended December 31,	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	Reported NIS	Reported NIS	Adjusted NIS
Financing cost relating to convertible bonds	612	3,333	2,361	3,063
Loss (profit) from marketable securities, net	(445)	(2,425)	(396)	(90)
Loss (gain) on cash and cash equivalents and bank deposits	17	95	(1,021)	(572)
Financing cost relating to long term debt	187	1,021	617	636
Others	89	487	632	874
	460	*2,511*	*2,193*	*3,911*

Unitronics (1989) (R"G) Ltd.
Company

	For the year ended December 31,	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	Reported NIS	Reported NIS	Adjusted NIS
Financing cost relating to convertible bonds	612	3,333	2,361	3,063
Loss (profit) from marketable securities, net	(445)	(2,425)	(396)	(90)
Loss (gain) on cash and cash equivalents and bank deposits	17	95	(1,021)	(572)
Financing cost relating to long term debt	187	1,021	617	636
Others	49	270	712	969
	420	*2,294*	*2,273*	*4,006*

Note 21 - Statements of Operations Data (cont'd)

G. Transactions with interested and related parties

1. statements of operations include transactions with interested and related parties as follows:

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Salaries and related benefits (*)	400	2,177	1,513	1,557
Directors' remuneration (**)	20	107	66	85
Rental expenses	47	255	53	-

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Sales revenues	1,226	6,680	4,113	2,632
Salaries and related benefits (*)	400	2,177	1,513	1,557
Directors' remuneration (**)	20	107	66	85
Rental expenses	47	255	53	-
General and administrative	81	439	351	-
Financing revenue (expenses)	57	312	(151)	(188)
(*) Number of recipients	2	2	2	2
(**) Number of recipients	3	3	3	3

2. The company insured the liability of the directors and executives in accordance with the provision of the law. The policy covers the liability of the directors ond executives of the company up to USD 5 million.

3. In April 2005 the general meeting of the company's shareholders approved to grant Mr. Haim Shani - the Company's Chief Executive Officer and chairman of the board of directors (hereinafter: "Mr. Shani"), a bonus (the "Special Bonus"), as consideration for his contribution to the Company's successful performance over the previous years in general and during the year 2004 in particular, in an amount of NIS 400 thousands (aprox. Euro 73 thousands).

   In addition, the Company will pay to Mr. Shani, an annual bonus in respect of each calendar year beginning on 2005 and as long as he serves as the Company's CEO (the "Future Bonus"), at a rate of 7.5% of the Company's profit before taxes.

4. Since August 2004 the company leases aprox. 196 sqaure meters in Unitronics house from an interested party, in August 2005 the tenancy agreement was expanded by an additional 436 sqaure meters.

Note 22 - Taxes on Income

A. Measurement of results for tax purposes under the Income Tax Law (Adjustments for Inflation) - 1985 (the "Inflationary Adjustments Law").

The Income Tax Law (Adjustments for Inflation) - 1985, which is in effect since 1985, provides for the measurement of a company's operating results on a "real" (non-inflationary) basis in accordance with the changes in the Israeli CPI.

B. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969.

The Company currently qualifies as an "Industrial Company" under the above law. As such, it is entitled to certain tax benefits, mainly the right to deduct share issuance costs for tax purposes in the event of a listing in a stock exchange, and to amortize know-how acquired from third parties.

C. On July 25, 2005 an adjustment to the income tax ordinance (No. 147) 2005, was approved by the government. This adjustment reduces the tax rates as follows: 2006 - 31%, 2007 - 29%, 2008 - 27%, 2009 - 26% 2010 and forward - 25%.

D. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereafter - "the Law").

1. On November 1999 the Company filed an application for Approved Enterprise status, with respect to investments in developing Internet based Programmable Logic Controllers. The Company has applied to participate in the Alternative Benefit Program under which a full tax exemption is available on its taxable profits attributable to the specific program approved during the first 2 years of the Benefit Period, as well as a Company Tax rate of 25% during the 5 years thereafter. The application was approved on June 2000. Tax benefits resulting from the additional approved enterprise status will be calculated in respect of the increase in sales compared to the base year (as defined by the Law for the Encouragement of Capital Investments). Income derived by the Company from sources other than the program granted the status of Approved Enterprise, as well as income derived after the end of the benefits period, is subject to regular Company Tax. Dividends paid out of income that derived from an "approved enterprise" are subject to a reduced income tax rate of 15%. The period of tax benefits, detailed above, is subject to a time limits of the earlier of 12 years from the commencement of production, or 14 years from receiving the approval.
   In the event of a distribution of cash dividends from income which is tax exempt due to the above, the Company would have to pay Company tax at the rate of 25% on the amount distributed.

2. On October 2000 the company filed an addition to the above approved enterprise program. The addition was approved on January 2003. Tax benefits resulting from the additional approved enterprise status are similar to the original approved enterprise program.

3. On April 22, 2003 the Company has submitted a final report regarding the execution of the approved enterprise program and its additions. The approved enterprise program and its addition were approved on Febuary 2004.

E. The taxes on income consist of the following:

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Deferred taxes	7	35	32	111
Taxes on income	- (*)	2	40	-
	7	*37*	*72*	*111*

(*) Less than EURO 1,000.

Note 22- Taxes on Income (cont'd)

E. The taxes on income consist of the following (cont'd):

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Deferred taxes	*7*	*35*	*32*	*111*

F. A reconciliation of the theoretical tax expenses, assuming all income is taxed at the Israeli statutory rate is as follows:

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Profit (loss) before taxes on income	122	661	2,951	(3,399)
Tax rate (%)	34	34	35	36
Theoretical tax	42	225	1,033	(1,224)
Increase in taxes resulting from non-deductible expenses	19	104	99	127
Temporary differences where deferred taxes were not recognized	(82)	(443)	(1,005)	1,164
Additional tax in respect of other differences	28	151	(55)	44
	7	*37*	*72*	*111*

Note 22 - Taxes on Income (cont'd)

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Profit (loss) before taxes on income	350	1,904	3,537	(2,937)
Tax rate (%)	34	34	35	36
Theoretical tax	119	647	1,238	(1,057)
Increase in taxes resulting from non-deductible expenses	19	104	99	127
Temporary differences where deferred taxes were not recognized	(159)	(867)	(1,250)	997
Additional tax in respect of other differences	28	151	(55)	44
	7	*35*	*32*	*111*

G. Deferred taxes

1. Changes:

Unitronics (1989) (R"G) Ltd. Consolidated and company	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Balance beginning of year	22	120	152	263
Changes during the year	(7)	(35)	(32)	(111)
Balance end of year	*15*	*85*	*120*	*152*

2. Balances:

Unitronics (1989) (R"G) Ltd. Consolidated and company	*December 31, 2005*	*December 31, 2005*	*December 31, 2004*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
<u>Other assets</u>			
Accrued severance pay, net	61	336	285
<u>Long term liabilities</u>			
Depreciation of buildings	(46)	(251)	(165)
	15	*85*	*120*

Note 22 - Taxes on Income (cont'd)

H. Final tax assessments
The Company has final tax assessments for all years up to December 31, 2001.

I. Tax loss carry forward
As at December 31, 2005 the company's tax loss carry forward where deferred taxes were not recognized, amounts to approximately NIS 27,000 thousands (EURO 4,957 thousands).

Note 23 - Business and geographical segments

1. General

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

B. Part of the revenues and expenses are allocated directly to the business segments. Expenses, which relate to both segments, are allocated to the segments on a reasonable basis.

C. The segment assets includes all the operation assets which the segment is using and contain especially accounts receivable trade and inventory. The segment liabilities includes all the operation liabilities which relate to the segment especially accounts payable trade and other and accrued severance pay, net.

D. The company and subsidiaries revenues can also be classified geographically.

2. Primary report on business segments

A. Revenues

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

	For the year ended December 31,	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Products	6,830	37,201	29,883	21,181
System integration projects	7,870	42,862	31,263	19,125
Other	130	711	625	-
	14,830	*80,774*	*61,771*	*40,306*

Note 23 - Business and geographical segments (cont'd)

2. Primary report on business segments (cont'd)

B. Segment results and adjustment to the profit (loss)

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	***2005***	***2004***	***2003***
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Products	1,928	10,498	9,241	5,112
System integration projects	843	4,591	4,934	2,475
Other	13	73	114	-
Unallocated corporate expenses	(2,202)	(11,990)	(9,193)	(7,066)
Operating profit	582	3,172	5,096	521
Unallocated corporate financing expenses, net	(460)	(2,511)	(2,193)	(3,911)
Other income (expenses), net	-	-	48	(9)
Taxes on income	(7)	(37)	(72)	(111)
Profit (loss) for the year	*115*	*624*	*2,879*	*(3,510)*

C. Segment assets

Unitronics (1989) (R"G) Ltd. Consolidated	*December 31, 2005*	*December 31, 2005*	*December 31, 2004*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Products	2,653	14,450	14,056
System integration projects	1,319	7,186	4,377
Other	45	243	183
Unallocated corporate assets	13,928	75,860	75,370
Consolidated total assets	*17,945*	*97,739*	*93,986*

Note 23 - Business and geographical segments (cont'd)

2. Primary report on business segments (cont'd)

D. Segment liabilities

Unitronics (1989) (R"G) Ltd. Consolidated	*December 31, 2005*	*December 31, 2005*	*December 31, 2004*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Products	1,599	8,708	6,351
System integration projects	2,648	14,424	11,738
Other	40	219	177
Unallocated corporate liabilities	9,864	53,723	55,105
Consolidated total liabilities	*14,151*	*77,074*	*73,371*

E. Capital expenditure

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Products	73	395	525	126
System integration projects	59	324	446	178
Unallocated capital Expenditure	186	1,012	3,375	3,866
Consolidated total capital expenditure	*318*	*1,731*	*4,346*	*4,170*

F. Depreciation and amortization

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Products	42	226	152	136
System integration projects	34	186	151	128
Unallocated depreciation and amortization	476	2,592	1,796	1,339
Total depreciation and amortization	*552*	*3,004*	*2,099*	*1,603*

Note 23 - Business and geographical segments (cont'd)

3. Secondary report on geographical segments

A. Revenues

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Israel	8,441	45,972	34,149	21,412
Europe (*)	3,355	18,275	16,673	10,766
America	2,372	12,919	8,250	5,743
Other destinations	662	3,608	2,699	2,385
	14,830	*80,774*	*61,771*	*40,306*

(*) Includes European clients whose end-user targets are Israeli companies.

B. Segment assets

Unitronics (1989) (R"G) Ltd. Consolidated	*December 31, 2005*	*December 31, 2005*	*December 31, 2004*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Israel	1,436	7,819	4,712
Europe	160	872	1,190
America	559	3,047	1,628
Other destinations	8	43	68
Unallocated corporate assets	15,782	85,958	86,388
Consolidated total assets	*17,945*	*97,739*	*93,986*

C. Capital expenditure

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
America	11	61	153	17
Unallocated capital expenditure	307	1,670	4,193	4,153
Consolidated total capital expenditure	*318*	*1,731*	*4,346*	*4,170*

Note 24 - Profit (loss) per share

Unitronics (1989) (R"G) Ltd. Consolidated and company	*For the year ended December 31*	*For the year ended December 31,*		
	2005	*2005*	*2004*	*2003*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Reported NIS**	**Adjusted NIS**
Profit (loss) for the period				
Basic and Fully diluted	115	624	2,879	(3,510)
Weighted average share capital (nominal NIS)				
Basic and Fully diluted	233	233	227	179

Note 25 - Financial Instruments and risk management

Credit Risks

As at December 31, 2005 the company (consolidated) had trade account receivables and other account receivables amounting to approximatly NIS 11,132 thousands. The company does not predict material credit risks in respect of trade account receivables and other account receivables.

Fair value of financial instruments

The financial instruments of the company include mainly non - derivative assets - cash and cash equivalents, securities, bank deposits, trade account receivables, other account receivables and long-term deposits; non - derivative liabilities - short-term credit from banks and others, trade account payables, other account payables, long-term liabilities from banks, others, and convertible bonds.

Because of the nature of the financial instruments the fair value of the financial instruments included in the working capital is in general equivalent to the accounting value. The fair value of long-term loans is also close to the accounting value since they bear interest close to the market interest rates.

Note 26 - Nominal historical Financial Data of the Company for tax purposes

Nominal figures of the Company.

A. Balance sheets

Unitronics (1989) (R"G) Ltd.	**Convenience translation into EURO, (unaudited)**	**Nominal NIS, (audited)**	
	December 31, 2005	*December 31, 2005*	*December 31, 2004*
		(in thousands)	
Cash and cash equivalents	3,093	16,845	20,630
Marketable securities	6,125	33,363	28,136
Bank deposit			
Accounts receivable -			
Trade	1,561	8,500	5,958
Other	1,260	6,862	4,387
Inventory	1,693	9,223	9,537
Inventory - work in progress	-	-	443
Current assets	*13,732*	*74,793*	*69,091*
Long-term deposits	*37*	*201*	*133*
Investment in subsidiaries	*15*	*80*	*75*
Property and equipment	*4,137*	*22,534*	*22,705*
Other assets	*601*	*3,272*	*4,150*
Total assets	***18,522***	***100,880***	***96,154***
Credit from banks and others	202	1,103	1,114
Accounts payable -			
Trade	2,376	12,937	13,514
Other	2,194	11,953	7,832
Current liabilities	*4,772*	*25,993*	*22,460*
Long-term debt	2,095	11,411	11,062
Convertible bonds	6,888	37,512	38,252
Provision for loss of subsidiaries	638	3,474	2,224
Accrued severance pay, net	247	1,346	1,140
Deferred taxes	44	239	161
Long-term liabilities	*9,912*	*53,982*	*52,839*
Share capital	43	234	234
Share premium	8,590	46,788	46,788
Receipts on account of warrants	124	676	676
Company shares held by the company	(106)	(574)	-
Accumulated loss	(4,813)	(26,219)	(26,843)
Shareholders' equity	*3,838*	*20,905*	*20,855*
Total liabilities and shareholders' equity	***18,522***	***100,880***	***96,154***

Note 26 - Nominal historical Financial Data of the Company for tax purposes (cont'd)

B. Statements of operations

Unitronics (1989) (R"G) Ltd.	**Convenience translation into EURO, (unaudited)**	**Nominal NIS, (audited)**		
	For the year ended December 31,	*For the year ended December 31,*		
	2005	***2005***	***2004***	***2003***
		(in thousands)		
Revenues	14,228	77,495	59,689	39,976
Cost of revenues	10,088	54,946	39,578	27,021
Gross profit	*4,140*	*22,549*	*20,111*	*12,955*
Research & development expenses, net	1,030	5,608	4,163	3,084
Selling & marketing expenses	1,231	6,707	6,170	5,658
General & administrative expenses	1,109	6,042	4,013	3,290
Operating profit	*770*	*4,192*	*5,765*	*923*
Financing expenses, net	421	2,296	2,281	3,478
Operating profit (loss) after financing expenses, net	*349*	*1,896*	*3,484*	*(2,555)*
Other income (expenses), net	-	-	45	(9)
Profit (loss) before taxes on income	*349*	*1,896*	*3,529*	*(2,564)*
Taxes on income	5	27	26	118
Profit (loss) after taxes on income	*344*	*1,869*	*3,503*	*(2,682)*
The Company's share of subsidiaries losses	229	1,245	626	456
Profit (loss) for the year	*115*	*624*	*2,877*	*(3,138)*

Note 26 - Nominal historical Financial Data of the Company for tax purposes (cont'd)

C. Statements of Shareholder's Equity

Unitronics (1989) (R"G) Ltd.	**Nominal NIS, (audited)**					
	Share Capital	***Share premium***	***Receipts on account of warrants***	***Company shares held by the company***	***Accumulated loss***	***Total***
	(in thousands)					
Balance at January 1, 2003	177	28,544	-	-	(26,582)	2,139
Issue of share capital	3	429	-	-	-	432
Conversion of convertible bonds	38	13,094	-	-	-	13,132
Loss for the year	-	-	-	-	(3,138)	(3,138)
Balance at December 31, 2003	*218*	*42,067*	-	-	*(29,720)*	*12,565*
Issue of share capital	16	4,721	-	-	-	4,737
Receipts on account of warrants	-	-	676	-	-	676
Profit for the year	-	-	-	-	2,877	2,877
Balance at December 31, 2004	*234*	*46,788*	*676*	-	*(26,843)*	*20,855*
Purchase of company shares by the company	-	-	-	(574)	-	(574)
Profit for the year	-	-	-	-	624	624
Balance at December 31, 2005	*234*	*46,788*	*676*	*(574)*	*(26,219)*	*20,905*

	Convenience translation into EURO, (unaudited)					
	Share Capital	***Share premium***	***Receipts on account of warrants***	***Company shares held by the company***	***Accumulated loss***	***Total***
	(in thousands)					
Balance at January 1, 2005	43	8,590	124	-	(4,928)	3,829
Purchase of company shares by the company	-	-	-	(106)	-	(106)
Profit for the year	-	-	-	-	115	115
Balance at December 31, 2005	*43*	*8,590*	*124*	*(106)*	*(4,813)*	*3,838*

Note 27 - Differences between Israeli GAAP and International Financial Reporting Standards (IFRS)

The Company prepares its financial statements in conformity with generally accepted accounting principles in Israel (Israeli GAAP). As applicable to the financial statements, Israeli GAAP and International Financial Reporting Standards (IFRS) are substantially identical in all material respects except as described below:

1. Convenience translation

   These financial statements include a convenience translation as explained in Note 2F. This convenience translation is not a full translation of the financial statements into a different reporting currency in accordance with SIC 30.

2. Convertible Bonds

   According to Israeli GAAP, convertible bonds are included on the basis of the probability of conversion (see Note 2O).
   According to IAS 32 the company, de facto, issued one financial instrument that contains both a liability and an equity element. Therefore on the initial recognition the company is required to classify the instrument's component parts separately as a liability (a contractual arrangement to deliver cash) and as equity (a call option granting the holder the right, for a specified period of time, to convert into common shares of the issuer). Such a classification has an unfavorable impact on the statements of operation as long as the convertible bonds are out standing.

   As regard to the financial statements reported the impact of such a classification on the statements of operation is immaterial.

3. Share-based payment

   According to Israeli GAAP, Share-based payments were not reflected in the financial statements.

   According to IFRS 2 the Company required to recognize share-based payment transactions in its financial statements in respect to 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. Concurrently with the recognition of the goods or services received, it is necessary to recognize in the financial statements an increase in shareholders' equity when the share-based payment transaction will be settled in equity instruments and the incurrence of a liability when this transaction will be settled in cash.

   As regard to the financial statements reported the impact of such a classification on the net profit for the year 2004 is a decrease of NIS 596 thousands and for the year 2005 is a decrease of NIS 596 thousands.

4. Profit (loss) per share

   The Company, in accordance with Israeli GAAP, presents the profit (loss) per NIS 1.00 ordinary shares, i.e. the profit (loss) for the period is divided by the nominal value of the Company’s share capital. IFRS requires to present the profit (loss) per ordinary share, i. e. dividing the profit (loss) for the period by the number of Company’s ordinary shares. Israeli GAAP differ from IFRS also in calculating the diluted profit (loss) per share with respect to convertible bonds and warrants.

Note 27 - Differences between Israeli GAAP and International Financial Reporting Standards (IFRS)
(con't)

The reconciliation between Israeli GAAP and International Financial Reporting Standards for the yaers 2004 and 2005 is as follows:

Unitronics (1989) (R"G) Ltd.

	For the year ended December 31,	*For the year ended December 31,*	
	2005	***2005***	***2004***
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Profit for the year (in thousands) - Israeli GAAP	115	624	2,879
Share-based payment	110	596	596
Profit for the year (in thousands) - under IFRS	5	28	2,283
Weighted average number of shares	11,652,622	11,652,622	11,343,213
Profit (loss) per ordinary share - under IFRS	0.0004	0.0024	0.20

Chapter D – Additional Details about the Corporation (Reg. 10C - 29A)

4.1. Use of the Proceeds of the Securities (Reg. 10C)

On May 19, 2004, pursuant to the Israeli prospectus, the Company raised a net amount (less underwriting, management and distribution and prior undertakings commissions, and stamp duty and other expenses) of approx. NIS 34,326,000 in respect of the allotment of 100,000 units comprising 800,000 of the Company's ordinary shares having a par value of NIS 0.02 each (hereinafter: "**Ordinary Shares**") together with a series of NIS 35,000,000 in par value of bonds (Series 1), convertible into Ordinary Shares, and 1,000,000 option instruments (Series 1), exercisable into Ordinary Shares.

The proceeds of the offering were designated, pursuant to the Israeli prospectus, for financing the Company's operations, as the Company's Board of Directors would decide from time to time. In addition, in the Israeli prospectus, the Company advised that it may use up to approx. NIS 13,000,000 (which constitutes approx. 38% of the net proceeds of the offering) for the repayment of loans and credits that it received from the Bank of Industrial Development Ltd., in respect of the purchase of rights in the Company's floors (the ground floor and the first floor at Unitronics House, as stated in Section 1.19.1 hereinabove). The debit balance of the Company in respect of the aforementioned loans and credits as of December 29, 2005, amounted to approx. NIS 11,000,000 (eleven million New Israeli Shekels) (for additional details about these loans and credits, see Section 1.26.2 hereinabove). On December 29, 2005, the Company repaid the aforementioned debit balance in whole by means of two new loans received from Bank Leumi Le'Israel Ltd. (one loan in the amount of 1,015,000 Euro and another loan in the amount of USD 1,200,000), without making use of the proceeds of the offering pursuant to the Israeli prospectus for the repayment of said loans and credits (for additional details, see Section 1.26.2).

4.2. List of Investments in Active Subsidiaries and in Related Companies (Reg. 11)

Below are details regarding the Company's investments in active subsidiaries and in related companies as of the balance sheet date:

Subsidiary	Class of Share	No. of Shares	Total Par Value
Unitronics House Management and Maintenance (2003) Ltd.	Ordinary of NIS 1.00	1,000	NIS 1,000
Unitronics Inc. (foreign company)	Common of US$ 0.01	1,000	US$ 10

Subsidiary	Balance Sheet Cost	Book Value	Rate of Company's holdings in equity, voting and in power to appoint directors out of the total issued shares
	NIS 000's		
Unitronics House Management and Maintenance (2003) Ltd.	1	80	100%
Unitronics Inc. (foreign company)	*	(3,474)	100%

(*) Less than NIS 1,000

4.3. Changes in Investments in Active Subsidiaries and in Related Companies (Reg. 12)

None.

4.4. Revenues of Active Subsidiaries and Related Companies and Income from such Companies (Reg. 13)

Below are details of the profits / losses of the Company's active subsidiaries and its related companies as of the balance sheet date, before and after provision for tax, in the last reported year that ended on or prior to the balance sheet date, and details with regard to dividends, management fees and interest, up to the balance sheet date and thereafter:

For the year ended December 31, 2005:

Subsidiary	Profit (Loss) Before Tax	Profit (Loss) After Tax	Dividend	Management Fees	Interest Income
	NIS 000's				NIS 000's
Unitronics House Management and Maintenance (2003) Ltd.	7	5	0	0	0
Unitronics Inc. (foreign company)	(1,239)	(1,239)	0	0	0

The Company did not receive any dividend, interest or management fees after the balance sheet date.

4.5. List of Loans (Reg. 14)

Not relevant (the provision of loans is not part of the Company's core business).

4.6. Trading on the Stock Exchange (Reg. 20)

On April 12, 2005, 1,000,000 (one million) Ordinary Shares of the Company, which until that time had been traded at the EuroNext Stock Exchange in Belgium, were listed for trading at the Tel Aviv Stock Exchange, in addition to the securities of the Company that had been listed for trading at that stock exchange pursuant to the Israeli Prospectus.

As at the date of this report, 11,676,546 Ordinary Shares of the Company par value NIS 0.02 each are listed for trading, out of which 1,800,000 Ordinary Shares are listed for trading at the Tel Aviv Stock Exchange, and an additional 9,876,546 Ordinary Shares are listed for trading at the EuroNext Stock Exchange in Belgium.

The Company holds 132,425 Dormant Shares. The Dormant Shares do not grant the Company any rights whatsoever (including voting rights and/or equity rights) (for additional details, see Section 4.9 hereinbelow.)

On February 20, 2006, the Company's Audit Committee and Board of Directors approved the Company's market making agreement with Harel Investments House Ltd. (hereinafter "**Harel**"), pursuant to which Harel shall act as market maker for the Company's shares pursuant to the Stock Exchange Regulations and pursuant to the instructions and decisions of the Board of Directors of the Stock Exchange. The agreement entered into effective on March 1, 2006, following the approval by the Stock Exchange of the appointment of Harel as market maker of the Company's shares (for details about the terms of the agreement, see the Immediate Report of February 21, 2006). The agreement with Harel is in addition to the agreement between the Company and a Sponsor Market Maker from Belgium, which was entered into upon the listing of the Company's shares in the EuroNext Stock Exchange in Brussels, Belgium, pursuant to the requirements applicable to the Company as a company whose shares are traded at the EuroNext Stock Exchange in Brussels, to ensure the frequency and liquidity of the trading of the Company's shares at the Belgian Stock Exchange.

4.7. Payments to Senior Officers (Reg. 21)

4.7.1. Below are details of the payments made by the Company and all payment undertakings (in cash and/or cash equivalents, loans, rights and any other benefit) which the Company took upon itself in the reported year, including with regard to retirement terms, for each of the five officers receiving the highest fee from among the Company's senior officers:

Officer	**Salary and Related Payments in NIS 000's**	**Supplemental Payments**
CEO and Chairman of the Board of Directors	1,598	See Section 1.22.4 hereinabove
Deputy CEO and Products Department Manager	1,005	See Section 1.22.4 hereinabove
Vice President and Systems Department Manager	916	See Section 1.22.4 hereinabove
Deputy CEO and Human Resources Manager	579	See Section 1.22.4 hereinabove
Manager of Project Management Department	560	

4.7.2. On April 12, 2005, the General Meeting of the Company's shareholders resolved to approve the payment of a special bonus to Mr. Haim Shani, the Company's controlling shareholder, Chairman of the Board of Directors and CEO of the Company, as compensation for his contribution to the successful performance of the Company in the last few years in general, and in 2004 in particular, and for the Company having registered net profit in such year. The cost of the special bonus to the Company amounted to approximately NIS 400,000. In addition, the General Meeting of the Company's shareholders resolved to approve a framework transaction pursuant to which Mr. Haim Shani shall receive an annual bonus for each calendar year as of the year 2005, for as long as Mr. Shani is employed as CEO of the Company (hereinafter "**Future Bonuses**"), within 30 days from the date of approval of the financial statements by the Company's Board of Directors for each calendar year as aforementioned, at a rate of 7.5% of the profits for that year before tax (cost to the Company) (hereinafter "**Framework Transaction**"). The Future Bonuses shall be paid within 30 days from the date of approval of the financial statements by the Company's Board of Directors, for each calendar year as aforementioned, and following approval by the Company's Audit Committee and Board of Directors that their terms and conditions comply with the terms and conditions pursuant to the aforementioned Framework Transaction. On March 27, 2006 the Company's Audit Committee and Board of Directors resolved to approve the payment of a bonus in the amount of NIS 52,000 to Mr. Haim Shani in respect of the year 2005, pursuant to the conditions of the aforementioned Framework Transaction.

On March 27, 2006 the Company's Audit Committee and Board of Directors resolved to approve an amendment to the employment agreement between the Company and Mr. Haim Shani, pursuant to which the payment of the current salary of Mr. Haim Shani, which amounts to a total of $15,000 gross per month, with the addition of Future Bonuses, (hereinafter "**Overall Salary**"), shall be divided, so that part of the Overall Salary shall be paid by the subsidiary Unitronics Inc., and the balance of the Overall Salary shall be paid by the Company for his services as CEO of the Company, provided that the aggregate cost to the Company (on a consolidated basis) of Mr. Shani's salary shall not exceed the cost of the Total Salary. Since the above division of Mr. Shani's salary does not involve additional salary costs to the Company, the Company's Audit Committee and Board of Directors resolved that the amendment has the capacity of only crediting the Company (for details about the amendment, see the Immediate Report pursuant to Regulation 1 (2) to the Companies Regulations (Relief in Transactions with Interested Parties) 5750-2000 datedMarch 27, 2006).

4.8. Fees and Benefits (Reg. 22)

Below are details of the benefits received by each of the interested parties in the Company, directly or indirectly, to the best of the Company's knowledge, in the reported year, or which he is entitled to receive from the Company, from a subsidiary, or from a related company:

4.8.1. During the reported period, the Company paid to interested parties employed by the Company a total amount of NIS 2,177 thousand (including related payments), according to the following breakdown:

Interested Party	**Paid By Balance Sheet Date** **NIS 000's**
Haim Shani	1,598
Bareket Shani	579
Other directors	107

4.8.2. Effective from August 2004, the Company has been renting, from a wholly owned company of the interested parties, Mr. Haim Shani and Mrs. Bareket Shani (hereinafter "**Lessor**"), approx. 200 sq.m. on the Private Floors of Unitronics House, pursuant to terms identical to those pursuant to which areas are let on the Private Floors to third parties, and which also reflect customary terms of rental in Airport City in general (for further details, see Section 1.19.2 hereinabove).. On August 11, 2005, the Company's Audit Committee and Board of Directors resolved to approve an amendment to the aforementioned rental agreement. Pursuant to the amendment, the Company shall rent from Lessor, as of August 1, 2005, an additional 436 sq. m. (in addition to the 196 sq. m. that the Company rented pursuant to the original rental agreement) of Unitronics House (hereinafter "**Additional Area**"). The total area rented by the Company from Lessor is approximately 632 sq. m. The Additional Area shall be subject to the terms and conditions of the original rental agreement (for additional details about the terms and conditions of the rental agreement, see Section 1.19.2 hereinabove). The total rental fees payable by the Company to Lessor for the original area plus the Additional Area (excluding administration fees for Airport City and for the subsidiary) amount to approx. $95,000 (ninety five thousand US Dollars). The amendment was approved pursuant to Regulation 1(5) to the Companies Regulations (Relief in Transactions with Interested Parties) 5750-2000, following resolution of the Company's Audit Committee and Board of Directors that the aforementioned agreement is effected at market conditions and is within the Company’s ordinary course of business, and that it does not harm the Company's best interests (for additional details, see the Immediate Report dated August 14, 2005). The Company paid to the Lessor for the year 2005 in respect of leasing the aggregate premises under lease in the Private Floors of Unitronics House an aggregate amount of NIS 255 thousand.

4.8.3. The Company hires the services of Mr. Albert Shaharbani (Mr. Haim Shani's father) to perform various administrative tasks in consideration of a monthly fee of an immaterial amount.

4.8.4. The Company's external directors and directors who do not serve as officers at the Company are entitled to annual remuneration and remuneration for participation at a rate of the "**Determined Amount**" as set forth in the Second and Third Schedules of the Companies Regulations (Rules Regarding Remuneration and Expenses to External Directors), 5760-2000, and in accordance with the relevant rating of the Company's capital.

4.8.5. On December 15, 2005, the General Meeting of the Company's shareholders authorized a private allocation of Options to purchase a total quantity of 10,000 Ordinary Shares of the Company to Mr. Ron Mishael, who was elected at such meeting to serve another term as external director of the Company. On March 27, 2006 the Company's audit committee and board of directors re-affirmed and, subject to the re-affirmation of the general meeting of the Company’s shareholders, issued these options to Mr. Mishael, according to the requirements of Section 102 of the Israeli Internal Revenue Ordinance [New Version] and the Company's 2003 Plan (for details see Section 4.10.3c below), with the other terms essentially similar to those pursuant to which the other directors pf the Company were granted options under the Company's 1999 Plan (for further details regarding the terms of the options, see immediate report of December 15, 2005).

4.8.6. On April 12, 2005, the General Meeting of the Company's shareholders resolved to increase the coverage of the Officers and Directors Liability Insurance policy from an amount of $2,000,000 (two million US Dollars) per event and in total in respect of damages that could occur during the period of the insurance (and further $400,000 for legal defense costs in Israel), to an amount of US$ 5,000,000 per event and in total, in respect of damages that could occur during the period of the insurance (and a further US$ 1,000,000 in respect of legal defense costs in Israel). In addition, the General Meeting resolved to adapt the Company's deductible in respect of claims filed in the USA and in Canada from an amount of $10,000 per event to an amount of US$ 50,000 per event. The extended period of the insurance shall apply effective from December 1, 2004 until November 30, 2005, and retroactively from August 9, 1989. In addition, the General Meeting resolved to authorize the Company's management to renew from time to time, under similar conditions, the Company's Officers and Directors Liability Insurance policy for additional periods of up to 18 months each time (see Immediate Report dated December 15, 2004).

4.8.7. On April 12, 2005, the Company’s General Meeting of shareholders resolved to grant to Mr. Haim Shani a special bonus and, in addition, pursuant to the Framework Transaction, an annual bonus for each calendar year as of the year 2005 (for additional details about the bonus for the years 2004 and 2005, see Section 4.7.2. hereinabove).

4.9. Holders of the Corporation's Shares (Reg. 24)

Below are details, to the best of the Company's knowledge, of the shares of the Company and securities convertible into such shares, as well as such securities of a subsidiary and a related company of the Company, which each interested party of the Company holds as at the date of the report:

In the Company:

Nameof Holder	**Ordinary Shares**	**Bonds (Series 1)**	**Option Instruments (Series 1)**	**Options (not listed)**	**% of issued capital**	**% of voting**	**% of issued capital**	**% of voting**
					Without dilution		**With full dilution**	
Haim Shani [1]	6,092,551 [2]	----	200,000	10,000[3]	52.78%	56.24%[4]	32.97%	35.06%[4]
Unitronics (1989) (R"G) Ltd.[*]	132,425	----	----	----	----	----	----	----
Other Directors[5]							Less than	Less than

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[1] Mr. Haim Shani serves as Chairman of the Board of Directors and as CEO of the Company.

[2] These shares also include 50 Company shares that are held by Corpus Colossum Ltd., a private company registered in Israel, in which Mr. Shani holds, in full, the share capital and the voting rights. In addition, these shares also include 50,000 Company shares, which Mr. Shani provided to the market maker of the Company in Belgium as detailed in Section 4.6 above. These shares are held by Interprofessionelle Effeotendeposito - en Girokas N.V. - Caisse Interprofessionelle de Depots et de Virements de Titres S.A. (hereinafter: "**CIK**"), which is registered in the Company's shareholders register as a shareholder; to the best of the Company's knowledge, in keeping with standard practice in Belgium and CIK regulations, in Belgium this entity acts as a registry and clearing house, with whom shares of the companies trading on the Belgian Stock Exchange are deposited, pursuant to a general power of attorney, and the various trading transactions which are executed with the shares on the Stock Exchange by banks, brokers and other authorized entities are registered in its registers. In this manner, the CIK functions in a capacity similar in essence to that of the listing companies in Israel, and it is through CIK that the listing of the Company's shares which are traded on the Belgian Stock Exchange is implemented; shareholders purchasing the Company's shares on the Belgian Stock Exchange execute the purchase (or sale) transaction through a securities account under their name at financial institutions (brokers, banks, etc.) which are, directly or indirectly, members of the CIK system. The Company is not aware of any other interested parties in addition to those specified hereinabove.

[3] Options that were granted under the 1999 Plan (as defined in Section 4.10.3 hereinbelow), which are exercisable into Ordinary Shares by June 2007, at an exercise price of 1.00 Euro per share. In addition to the said options, and pursuant to his employment contract, Mr. Shani is entitled to additional options (see Section 1.22.4 (a) hereinabove).

[4] In addition to the shares held by him directly or indirectly as stated hereinabove, Mr. Haim Shani also holds an irrevocable power of attorney (in accordance with the settlement agreement signed between him and his brothers, Messrs. Tsaddock and Alon Shani, on March 18, 2002) to participate in the shareholders meetings of the Company and to vote by virtue of 399,999 Ordinary Shares of the Company in the name and on behalf of his brothers as stated, at his sole discretion, with regard to any matter, with the exception of a change in the rights attached to these shares in the Company's Articles. The power of attorney will terminate in the event of a drop of 90% or more in the holdings of Messrs. Tsaddock and Alon Shani in these shares and/or when Mr. Haim Shani ceases to be a controlling shareholder of the Company.

Nameof Holder	Ordinary Shares	Bonds (Series 1)	Option Instruments (Series 1)	Options (not listed)	% of issued capital	% of voting	% of issued capital	% of voting
					Without dilution		With full dilution	
	0	-----	0	40,000	0	0	1%	1%

*The Company purchased Company shares (creation of Dormant Shares) in the Company's share capital)

As of August 2005, from time to time, the Company purchases Ordinary Shares of the Company within the framework of trade on the Tel Aviv Stock Exchange. As at January 15, 2006, the Company holds a total of 132,425 shares purchased as aforementioned (out of 11,676,546 Ordinary Shares in the Company's issued capital). These purchases were effected for a total amount of approx. NIS 641,000 at prices between NIS 3.23 and NIS 5.4 per share. For as long as these shares are owned by the Company, they are "Dormant Shares" as defined under the Companies Law 5759-1999. On March 27, 2006 the Company's board of directors approved additional acquisitions of Ordinary Shares of the Company for an aggregate additional sum of up-to NIS360,000, upon similar terms. For additional details about these purchases, see the Immediate Reports published by the Company from time to time following these purchases, as of August 18, 2005 until January 8. 2006.

In subsidiaries and related companies:

None.

4.10. Registered Capital, Issued Capital and Convertible Securities (Reg. 24A)

4.10.1. Registered and Issued Capital

The Company's registered capital is NIS 2,000,000, divided into 100,000,000 Ordinary Shares having a par value of NIS 0.02 each.

The Company's issued capital is NIS 233,530.92 comprising 11,676,546 Ordinary Shares having a par value of NIS 0.02 each. The Company holds a total of 132,425 Dormant Shares, which do not entitle the Company to any rights (including voting rights and/or rights on capital).

[5] Options that were granted under the 1999 Plan (as defined in Section 4.10.3 hereinbelow), which are exercisable into Ordinary Shares by June 2007, at an exercise price of 1.00 Euro per share. Out of these, Mrs. Bareket Shani, the wife of Mr. Haim Shani, who serves as a director of the Company and as Deputy CEO, and also Messrs. Zvi Livne and Shraga Zur, who serve as directors of the Company, each hold options to purchase 10,000 shares. Furthermore, in accordance with her employment contract, Mrs. Shani is entitled to additional options (see Section 1.22.4 (a) hereinabove). In addition, on March 27, 2006 10,000 options were issued to Mr. Ron Mishael who acts as external director of the Company, as detailed and subject to the terms and conditions included in Section 4.8.5 hereinabove).

4.10.2. Convertible Securities – General

The Company's capital includes convertible securities as follows:

a. Bonds (Series 1) whose terms are as set forth in Section 1.30.4 hereinabove and which are listed for trading on the Tel Aviv Stock Exchange.

b. Option instruments (Series 1) whose terms are as set forth in Section 1.30.5 hereinabove and which are listed for trading on the Tel Aviv Stock Exchange.

c. Bonds whose terms are as set forth in Section 1.4.2 hereinabove and which are not listed for trading on any Stock Exchange.

d. Options that were granted under option plans, the main terms of which are set forth in Section 4.10.3 hereinbelow, and which are not listed for trading on any Stock Exchange.

4.10.3. Convertible Securities – Option Plans

The Company has three option plans, the 1999 Plan, the 2001 Plan, and the 2003 Plan (as defined hereinbelow), the main terms of which are as follows:

a. The 1999 Option Plan

The July 1999 Option Plan (hereinafter: the "**1999 Plan**") for employees, officers and consultants of the Company or the Company's subsidiaries, includes a framework for the purchase of 440,000 Ordinary Shares until the year 2009. The exercise price of the options under the 1999 Plan shall be not lower than the reasonable market value of the Company's shares on the date of the grant, which is defined in the Plan as the average closing price of the Company's share on the Stock Exchange on which its shares are traded in the ten days of trading preceding the grant of the option.

The options granted under the 1999 Plan may be exercised in installments during a vesting period, pursuant to the determination of the Company's Board of Directors, which is, in general, up to five years from the grant thereof. The options are not transferable, other than by a will or succession laws, and during the optionee's life, the options may be exercised by him or by his legal representative, only. The options shall expire pursuant to the terms as shall be determined by the Company's Board of Directors, and in general (in the case of employees) not later than 12 months after the termination of their employment, and in the event of death or disability, during three months. The 1999 Plan includes adjustment mechanisms for events of changes in the Company's share capital (such as the distribution of bonus shares, the division or consolidation of share capital) and also mergers, acquisitions and reorganization, pursuant to which the options would confer on the holders thereof rights to shares identical to those allotted to the Company's shareholders in the course of the said events, subject to the option holders' right, in the events of reorganization, mergers and acquisitions, to exercise their options into shares on the effective date of the said events. In events of dissolution, the options shall be immediately exercisable, without dependence on the said vesting schedule.

As at the date of the report, options have been granted under the 1999 Plan for the purchase of 435,250 Ordinary Shares, of which options to purchase 288,000 shares expired as at December 2004, and options to purchase additional 62,250 shares expired as at October 2005, pursuant to the terms thereof, without exercise (see additional details in Section 4.10.4 hereinbelow).

b. The 2001 Option Plan

The May 2001 Option Plan (hereinafter: the "**2001 Plan**") for employees, officers and consultants of the Company or the Company's subsidiaries, includes a framework for the purchase of 950,000 Ordinary Shares until the year 2011. The terms of the 2001 Plan are essentially similar to the terms of the 1999 Plan. As at the date of the report, options have been granted under the 2001 Plan for the purchase of 793,499 Ordinary Shares, of which options to purchase 76,999 shares expired, pursuant to the terms thereof (see further details in Section 4.10.4 hereinbelow).

c. The 2003 Option Plan

An Option Plan from November 2003 (hereinafter: the "**2003 Plan**") which complies with the provisions of Section 102 to the Israeli Income Tax Ordinance (New Version), including as amended in Amendment No. 132, dated January 1, 2003 (in this section, hereinafter: the "**Ordinance**"). The 2003 Plan is intended for the employees and/or the officers of the Company, the Company's subsidiaries and/or the Company's parent company, who are not controlling shareholders, and includes a framework for the purchase of 1,000,000 Ordinary Shares until the year 2013. The options granted under the 2003 Plan are granted under a "**capital gains course**" (as defined in Section 102(b)(2) to the Ordinance), will be held in trust for at least 24 months from the tax year in which they are granted, the profit from the sale of the underlying shares shall be taxed at a rate of 25% only (instead of the marginal rate of tax applicable to the optionee), and the Company shall not be able to recognize the options as an expense. The exercise price of the options granted under the 2003 Plan shall be not less than the par value of the shares underlying the options. The other terms of the 2003 Plan are essentially similar to the terms of the 1999 Plan.

As at the date of the report, options have been granted under the 2003 Plan for the purchase of 502,000 Ordinary Shares, to employees who are not interested parties, of which options to purchase 36,000 shares expired prior to the date of this report, pursuant to the terms thereof, without exercise, out of which options to purchase 10,000 Ordinary Shares were issued to Mr. Ron Mishael who serves as an external director of the Company (for details see Section 4.8.5 above); the balance of the options to purchase 498,000 shares were granted to a trustee on behalf of the Company, and are intended to be transferred from time to time to employees who are not interested parties by virtue of their holdings (see further details in Section 4.10.4 hereinbelow).

4.10.4. Convertible Securities – Summary Information

Below is summary information regarding the convertible securities in the Company's capital as at the date of the report:

Type of convertible security/ option plan	Amount of Ordinary Shares, NIS 0.02 par value each, that was reserved	Amount of shares underlying the securities allotted/ actually granted by the date of the report	Amount of shares underlying the securities which have expired as at the date of the report	Amount of shares vested as at the date of the report	Exercise Price	Expiration Date
Bonds (Series 1)[6]	3,888,889	3,888,889		3,888,889	8.13 NIS	9.5.2010
Option Instruments (Series 1)[7]	1,300,000	1,300,000		1,300,000	7.55 NIS*	23.5.2008
Bonds[8]	158,562	158,562		158,562	4.73 Euro	7.8.08
1999 Plan[9]	440,000	288,000	288,000	0	3.80 Euro	2.12.04
		35,000		35,000	0.82 Euro	30.6.07
		62,250	62,250	0	1.00 Euro	31.10.05
		50,000		50,000	1.00 Euro	30.6.07
2001 Plan [10]	950,000	376,500	8,000	368,500	2.70 Euro	28.6.06
		39,999	39,999	0	4.73 Euro	11.3.06
		15,000	15,000	0	4.75 Euro	11.3.06
		359,000	14,000	261,750	0.91 Euro	30.6.07
2003 Plan[11][12]	1,000,000	397,000	36,000	120,326	1.30 Euro	22.1.09
		105,000		0	1.30 Euro	21.1.10
		10,000		0	1.00 Euro	31.5.09
		498,000***		0	-	-
TOTAL	7,737,451	7,583,200	462,250	6,183,027		

(*) Linked to the representative rate of exchange of the US dollar.

(**) The issuance is subject to re-affirmation of a general meeting of the Company's shareholders as detailed in Section 4.8.5 above

(***) Granted to a Trustee as detailed in Section 4.10.3 (c) hereinabove.

6 For additional details, see Section 1.30.4 hereinabove.
7 For additional details, see Section 1.30.5 hereinabove.
8 For additional details, see Section 1.4.2 hereinabove.
9 For additional details, see Section 4.10.3 (a) hereinabove.
10 For additional details, see Section 4.10.3 (b) hereinabove.
11 For additional details, see Section 4.10.3 (c) hereinabove.

11 For details about the resolution to approve the allocation of 10,000 options (which have not yet been actually allocation) to Mr. Ron Mishael, see Section 4.8.5 hereinabove.

4.11. The Directors of the Corporation (Reg. 26)

4.11.1. Details of the Directors: Below are details with regard to each one of the directors of the Company, according to the following subsections: (1) the name of the director; 1(a) his ID number; (2) his date of birth; (3) his address for service of process; (4) his citizenship; (5) his membership in a committee or committees of the Board of Directors; (6) is he an external director as defined in the Companies Law – yes/no, and does he have an accounting and financial skills or professional qualifications; (7) is he an employee of the Company, of its subsidiary, of a related company or of an interested party in the Company – the position or positions which he holds therein; (8) the date on which he assumed office as a Company director; (9) his education and his employment in the last five years, detailing the profession or subject in which the education was acquired and the academic title or profession diploma which he holds, and details of the corporations at which he serves as a director; (10) whether he is, to the best of the knowledge of the Company and its other directors, a relative of another interested party in the Company – yes/ no, and details; (11) is he considered by the Company as having an accounting and financial skills required for conforming with the minimal number determined by the Company's Board of Directors pursuant to Section 92(a)(12) of the Companies Law – yes/ no.

a. (1) Haim Shani; (1a) 056548142; (2) July 31, 1960; (3) 83 Adolam Street, Shoham; (4) Israeli; (5) Chairman of the Board of Directors of the Company and a member of the Securities Committee; (6) No, has professional qualifications; (7) Yes, CEO of the Company, a director and the senior officer of Unitronics House Management and Maintenance (2003) Ltd., director and president of Unitronics Inc.; (8) August 20, 1989; (9) High-school; serves as a director of Cardiosense Ltd., Corpus Colossum Ltd., Netrix Ltd.; (10) Yes, the husband of Mrs. Bareket Shani, a director and officer of the Company (see details hereinbelow); (11) No.

b. (1) Bareket Shani; (1a) 058136631; (2) June 30, 1963; (3) 83 Adolam Street, Shoham; (4) Israeli; (5) Director and a member of the Securities Committee and of the Credit and Investments Committee; (6) No, has professional qualifications; (7) Yes, Deputy CEO and Human Resources Manager, a director of Unitronics House Management and Maintenance (2003) Ltd.; (8) July 6, 1999; (9) Academic, B.A in industry and management engineering from the Technion – Israel Institute of Technology ; (10) Yes, the wife of Mr. Haim Shani, Chairman of the Board of Directors and CEO of the Company; (11) No.

c. (1) Zvi Livne; (1a) 010025658; (2) July 22, 1947; (3) 20 Yohanan Hasandlar Street, Haifa; (4) Israeli; (5) Director, member of the Audit Committee, director with accounting skills; (6) No, has accounting and financial skills as well as professional qualifications; (7) Yes, a director of Unitronics House Management and Maintenance (2003) Ltd.; (8) July 8, 1999; (9) Academic, B.A in economics and accounting from Tel-Aviv University, M.B.A from Tel-Aviv University, holds an accountant diploma; serves as a financial and commercial advisor to a number of Israeli companies; senior partner at the accounting firm, Shifer, Fogel & Livne, CPA; (10) No; (11) Yes.

d. (1) Shraga Zur; (1a) 006119689; (2) May 10, 1936; (3) 17 Haharuv Street, Ramat Hasharon; (4) Israeli; (5) Director, member of the Audit Committee and a member of the Securities Committee; (6) Yes, has professional qualifications; (7) No; (8) December 27, 2000; (9) Academic, B.A in economics and international relationships from the Hebrew University in Jerusalem. Business management diploma from the Hebrew University in Jerusalem; serves as an independent consultant in the economic-business field, primarily to companies in the Israeli hi-tech sector, including companies with international operations; (10) No; (11) No.

e. (1) Ron Mishael; (1a) 056589971; (2) April 23, 1960; (3) 7 Menachem Begin Street, Ramat Gan, Beit Gibor Sport; (4) Israeli; (5) Director, member of the Audit Committee, member of the Credit and Investments Committee and a director with accounting skills; (6) Yes, has accounting and financial skills as well as professional qualifications; (7) No; (8) December 15, 2005 (second term); (9) Academic, Bachelor of Business specializing in accounting from The College of Management Academic Studies Division. Holds an accountant and tax consultant diploma; senior partner at the accounting firm, Mishael-Rosenberg; financial consultant to private companies. Serves as an internal auditor at Mafil Ltd.; served as an external director of Reshef Computers and Peripheral Equipment (1982) Ltd. from 1997 – 2002; also serves as a director of Ron Mishael, CPA, R.A.M. Financial Services Ltd. and of Moral Financial Services Ltd.; serves as an external director of Gena Ltd. (public company); (10) No; (11) Yes.

4.11.2. Directors with Accounting Skills: At the meeting of the Company's Board of Directors held on March 18, 2004, the Company's Board of Directors determined that the appropriate minimum number of directors of the Company with accounting and financial skills, taking into consideration, among other things, the size of the Company, the type of its operations, its complexity, etc., would be one director, for such time as the Company's Board of Directors comprises up to six members. In actual fact, two directors with accounting and financial skills serve at the Company, namely Messrs. Zvi Livne and Ron Mishael, out of five members of the Board of Directors.

4.12. Senior Officers (Reg. 26A)

Below are details with regard to each of the senior officers of the Company, whose details were not set forth in Section 4.11 hereinabove, according to the following subsections: (1) the name of the officer; 1(a) his ID number; (2) his date of birth; (2a) the date on which he assumed office; (3) the position he holds at the Company, at a subsidiary, at a related company or at an interested party in the Company; (4) is he a relative of another senior officer or of interested party in the Company – yes/ no (5) his education and his employment in the last five years, detailing the profession or subject in which the education was acquired, the institution in which it was acquired and the academic title or professional diploma which he holds.

a. (1) Eyal Saban; (1a) 058138710; (2) July 21, 1963; (2a) January 1, 2000; (3) Chief Technology Officer (CTO); (4) No; (5) Academic; in the years 1995-2000, served as the manager of Netium Ltd.; serves as a director of Netium Ltd.

b. (1) Yair Itscovich; (1a) 058858176; (2) December 9, 1964; (2a) January 1, 1999; (3) Chief Financial Officer (CFO); (4) No; (5) High-school education and Level III Bookkeeping from the Ministry of Labor.

c. (1) Alon Kedar; (1a) 057410102; (2) December 4, 1961; (2a) June 1, 1999; (3) Deputy CEO and Products Department Manager; (4) No; (5) Academic, B.A in economics and management from Bar-Ilan University, M.B.A marketing and financing from Bar-Ilan University. Before joining the Company, served as the Marketing Manager of Zag Industries Ltd.

d. (1) Yonatan Roman; (1a) 031277031; (2) June 10, 1954; (2a) March 1, 2003; (3) Vice President and Systems Department Manager; (4) No; (5) Academic, B.A in agricultural machines engineering from the Technion – Israel Institute of Technology, from 1992 to the time he joined the Company, he served as co-CEO of Programma Ltd. and CEO of Maof Projects Ltd.

e. (1) Eyal Horovitz; (1a) 058876574; (2) June 5, 1964; (2a) June 18, 2000; (3) Internal auditor of the Company; (4) No; (5) Academic, certified public accountant, jurist, senior lecturer at the College of Management, participates in professional and public committees, a member of the Committee of Auditing Standards and Auditing Procedures of the Institute of Certified Public Accountants in Israel. Member of the Board of Directors and of the Europe, Middle East and Africa Committee of Baker Tilly International, an international network of accountants. Participated in conferences and international committees in Munich, in October 2003, in Brussels, in May 2004, and at the North American Congress, in May 2004.

4.13. The Corporation's Accountant (Reg. 27)

Amit Halfon, CPA – 16 Habba Hillel St., Ramat Gan.

4.14. Modification of the Articles or Memorandum of Association (Reg. 28)

None.

4.15. Recommendations and Resolutions of the Directors and Resolutions of the Extraordinary General Meeting (Reg. 29)

Recommendations and resolutions of the Directors - N/A.

Resolutions of the Extraordinary General Meeting: On December 15, 2005, the Company's General Meeting resolved to approve the appointment of Mr. Ron Mishael for a second term as External Director, including the allocation of options to Mr. Ron Mishael as indicated in Section 4.8.5 hereinabove.

4.16. The Company's Resolutions (Reg. 29 A)

Below are details of the Company's resolutions with regard to the approval of acts pursuant to Section 255 and 254 (a) of the Companies Law, Extraordinary Transactions pursuant to Section 271 (1) and release, insurance and undertaking to indemnify officers, in effect as at the date of the report:

The Company is currently evaluating the amendment of its Articles of Association and current arrangements between the Company and its officers in respect of insurance, exemptions and indemnity, to adapt them, as necessary, to the provisions of Amendment 3 to the Israeli Companies Law.

4.16.1. Indemnity: The Company's Board of Directors resolved, on March 18, 2004 (and the resolution was approved by the General Meeting of the Company's Shareholders of April 13, 2004) to undertake to the officers of the Company that the Company would indemnify them, in advance, in the events set forth hereinbelow, in an amount that will not exceed 25% of the Company's shareholders' equity, as recorded in its financial statements on the date of the indemnity, with regard to all the officers. This amount will be added to the amount of all insurance benefits in respect of the types of determining events, which the Company will receive from time to time under any officers' liability insurance. The determining events are:

1. Acts in connection with investments (including investments that were not actually implemented) made by the Company, a subsidiary or a related company (as defined in the Securities Law) in various corporations, whether prior to or after effecting the investment, including the engagement in the transaction, the execution of the transaction, the follow-up and supervision of the investment after it

was made, and any act performed by an officer in connection therewith.

2. The issuance of securities (including an issuance of securities that was not actually implemented), including, without derogating from the generality of the aforementioned, the offering of the securities to the public pursuant to a prospectus, a private placement, or the offering of securities in any other manner.

3. A transaction as defined in Section 1 to the Companies Law, including the receipt of credit, a sale or purchase of assets or undertakings, including securities or the grant or receipt of a right in any of them, and any action entailed, whether directly or indirectly, in such a transaction.

4. A report or notice filed pursuant to the Companies Law or the Securities Law or any other law applicable to the Company, including the regulations enacted pursuant thereto, or pursuant to laws and regulations addressing similar subjects outside of Israel, or pursuant to rules or directives which are customarily practiced on the Stock Exchange or in the commercial arena in Israel or outside Israel, and all including non-submission of such a report or notice.

5. Acts in connection with the terms of employment of employees, including the handling of pension funds, provident funds, insurance funds and savings funds, options, and other benefits to employees, of any kind or nature.

6. Any act that caused bodily injury, disease, death, property damage, including loss of use of property.

7. Any act that gave rise to a failure to secure appropriate insurance arrangements.

8. A change to the Company's structure or reorganization or any decision in connection therewith, including, without derogating from the generality of the aforementioned, a merger, spin-off, change in the capital of the Company, a subsidiary, or related companies, the dissolution or sale thereof, the allotment of a security of any kind of the Company, a subsidiary or a related company, or the implementation of a Distribution (as defined in the Companies Law) or a purchase offer by or in connection with any of the above.

9. An expression, statement, including the expression of an opinion or position that was made in good faith by the officer in the course of and by virtue of his duty, and including in the course of the meetings of the General Meeting or Board of Directors of the Company, a

subsidiary or a related company, or any of the committees of the any such Board of Directors.

10. Civil or criminal actions relating to the ordinary and on-going course of the Company's business, and also to extraordinary transactions of the Company.

11. Actions that were filed against an officer in connection with the dissolution or receivership of the Company, a subsidiary or a related company.

12. Derivative actions or class actions in connection with the Company, a subsidiary or a related company.

13. Actions in connection with merger, spin-off, or reorganization proceedings, etc.

14. Acts or decisions in connection with the preparation or approval of financial statements, business plans or forecasts in connection with the Company, a subsidiary or a related company.

15. Actions in connection with documents relating to the matters indicated hereinabove or in connection with acts or resolutions relating to the matters indicated hereinabove, or in connection with representations and undertakings that were given in connection with the matters indicated hereinabove, including such representations and undertakings that were given to third parties or to the Company, a subsidiary or a related company, or to any party on its behalf (including to its consultants, such as accountants, attorneys, etc.).

16. Any act or omission committed by the officer in the past, in his capacity as an officer of the Company, in respect of which he may be lawfully indemnified.

With regard to the events indicated hereinabove:

The "**Securities Law**" – The Israeli Securities Law, 5728-1968.

The "**Companies Law**" – The Israeli Companies Law, 5759-1999.

"**Security**" – as defined in Section 1 to the Companies Law.

4.16.2. Further to resolutions adopted by the Company's audit committee and board of directors on March 27, 2006, the Company intends, subject to the approval of a general meeting of its shareholders, to amend the provisions of the Company's Articles of Association of the Company regarding exemption, insurance and indemnification of officers in order to conform to the third amendment to the Companies Law (from March 17, 2005) and, subject to the approval of such amendments to the Company's Articles and the approval of a general meeting of the Company's shareholders, to approve exemption and indemnification and granting indemnification instruments to the officers of the Company as shall be from time to time and/or officers serving on behalf of the Company in other companies, as well as to Messrs. Haim Shani and Bareket Shani, the control holder of the Company and his wife, who also serve as officers of the Company (for details see Immediate Report regarding convening a general meeting of shareholders and approval of a transaction with a control holder from March 27, 2006).

4.16.3. Transaction with an interested party. On August 11, 2005, the Company's Audit Committee and Board of Directors resolved to approve the amendment to the rental agreement dated August 2, 2004 between the Company and the company controlled by Mr. Haim Shani (for additional details, see Section 4.8.1. hereinabove).

4.16.4. Insurance: The Company's Board of Directors resolved, on March 18, 2004 (and the resolution was approved by the General Meeting of the Company's Shareholders of April 13, 2004) to renew, from time to time, under similar conditions, the Company's Officers and Directors Liability Insurance policy (the Company's officers are insured against claims in respect of officers' liability up to an amount of US$ 2,000,000 per event and in total, in respect of damages that could occur during the period of the insurance, and a further US$ 400,000 in respect of legal defense costs in Israel. The basic coverage was extended to jurisdiction around the world, including the USA and Canada. The deductible applies only to the Company and not to the officer or director. The amount of the deductible in respect of claims filed anywhere is US$ 10,000), for additional periods of up to 18 months each time.

On January 26, 2005, the Company's Audit Committee and the Board of Directors resolved, in the course of a comprehensive review of the Company's insurance coverage in the various fields, to increase the aforementioned insurance coverage to an amount of US$ 5,000,000 per event and in total, in respect of damages that could occur during the period of the insurance (and a further US$ 1,000,000 in respect of legal defense costs in Israel), and to increase the Company's deductible in respect of claims filed in the USA and in Canada to an amount of US$ 50,000 per event. The extended period of the insurance shall apply effective from December 1, 2004 until November 30, 2005, and retroactively from August 9, 1989, all subject to the approval of the General Meeting of the Company's Shareholders in accordance with Section 273 to the Companies Law, 5759-1999. In addition, it was resolved to authorize the Company's management to renew from time to time, under similar conditions, the Company's Officers and Directors Liability Insurance policy for additional periods of up to 18 months each time.

On April 12, 2005, the General Meeting of the Company's shareholders resolved to increase the coverage of the Officers and Directors Liability Insurance policy from an amount of $2,000,000 (two million US Dollars) per event and in total in respect of damages that could occur during the period of the insurance (and further $400,000 for legal defense costs in Israel), to an amount of US$ 5,000,000 per event and in total, in respect of damages that could occur during the period of the insurance (and a further US$ 1,000,000 in respect of legal defense costs in Israel). In addition, the General Meeting resolved to adapt the Company's deductible in respect of claims filed in the USA and in Canada from an amount of $10,000 per event to an amount of US$ 50,000 per event. The extended period of the insurance shall apply effective from December 1, 2004 until November 30, 2005, and retroactively from August 9, 1989. In addition, the General Meeting resolved to authorize the Company's management to renew from time to time, under similar conditions, the Company's Officers and Directors Liability Insurance policy for additional periods of up to 18 months each time (see Immediate Report dated December 15, 2004).

4.16.5. Transaction with an office holder - granting of a Special Bonus to Mr. Haim Shani, controlling shareholder in the Company, Chairman of the Board of Directors and CEO of the Company, in consideration for his contribution to the successful activities of the Company in the last few years in general, and in 2004 in particular, and for the Company registering a net profit in said year (for details about the amount of the bonus for the years 2004 and 2005, see Section 4.7.2 hereinabove).

______________________________ March 27, 2006

Unitronics (1989) (R-G) Ltd.

By Haim Shani, CEO and Chairman of the Board of Directors

Zvi Livne, Director