Unitronics (1989)(R”G) LTD.

2006 – Periodic and Annual Report

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This report contains forward-looking information within the meaning of Section 32A of the Israeli Securities Law, 5728-1968, including forecasts, estimations, assessments, expectations or other information pertaining to future events or issues, the occurrence of which is uncertain and not solely under the Company's control, if at all. This information is identified as such where it is used herein. Although such information is based on data available to the Company as of the date of the report, and reflects the Company's intents and estimates as of such date, the actual occurrences and/or results may vary substantially from those presented in the report or implied there from 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. 8A)

Part I - Description of the general development of the Company's business

1.1 Company activity and description of its business development

The Company engages in the design, development, manufacture, marketing, sale and support 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.

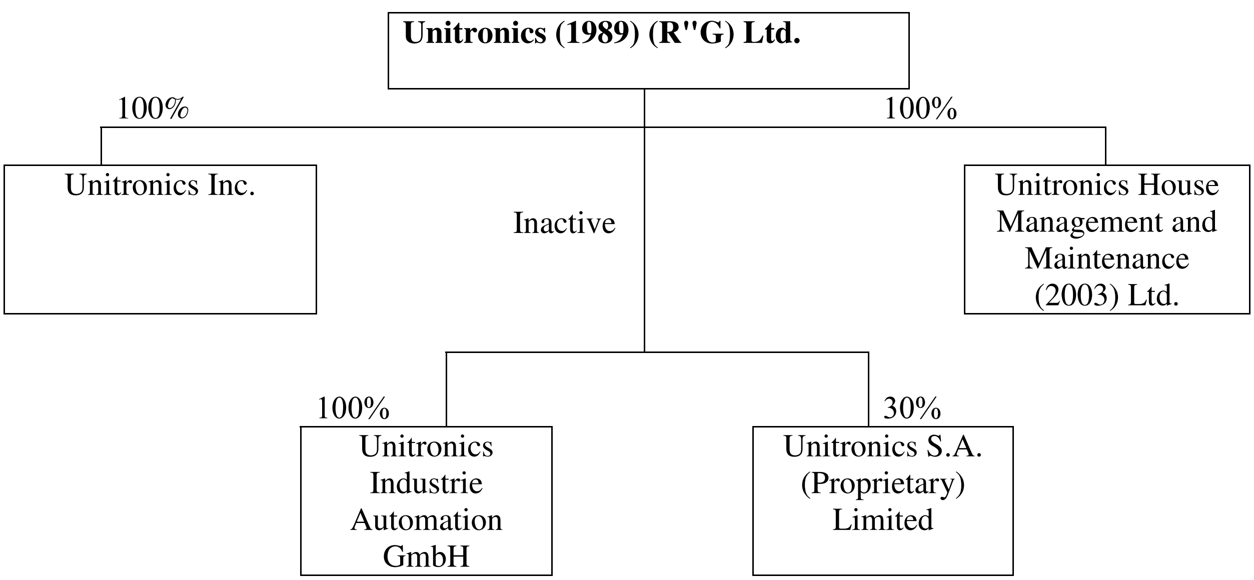
The Company was incorporated in August 1989 as a private company pursuant to the Israeli Companies Ordinance (New Version), 5743-1983 (**"Companies Ordinance"**), and since then has been primarily engaged in the field of PLCs and in projects involving automation, computerization and integration of computerized production and/or logistics systems. As of July 1999, the Company became a public company as per definition thereof in the Companies Ordinance. In September 1999 the Company first published a prospectus offering its shares to the public in Belgium, and subsequently its shares were listed on the Euro.NM stock exchange in Belgium. In 2000, following the establishment of the EuroNext stock exchange in Belgium, trading of the Company's shares was moved to this exchange. In May 2004 the Company published a prospectus in Israel under which the Company listed for trading on the Tel Aviv stock exchange its shares, convertible bonds (Series 1) and option instruments (Series 1) (see section 1.4.3 in this report). In August 2006 the Company published a prospectus in Israel under which the Company listed for trading on the Tel Aviv stock exchange its convertible bonds (Series 2) and option instruments (Series 2) (see section 1.4.10 in this report).

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).

1.2 Subsidiaries and holding diagram

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. In addition, the Company holds 100% of the issued capital of Unitronics Industrie Automation GmbH, incorporated in Germany, as well as 30% of the issued capital of Unitronics S.A. (Proprietary) Limited, incorporated in South Africa. These companies were incorporated in 1985 and 1997, respectively, primarily for marketing operations of Company products in those countries. These companies have been inactive for a number of years (the German subsidiary since 1997 and the South African subsidiary since 2000) and since then had no assets, employees nor liabilities.

Below is a diagram of the Company's holding structure and its subsidiaries:



1.3 Sectors of Activity

The Company has 2 major sectors of activity, handled by 2 business departments: the Products Department and the Systems Department.

Product Sector: 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.

System Sector: 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.

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

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

1.4.1 On January 29, 2003 the Company effected a private placement of its shares as part of a private placement agreement with an unaffiliated 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 (reflecting the 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 such agreement these shares were listed for trading on the stock exchange in Belgium and are not subject to any lock-up arrangements.

1.4.2 On December 18, 2003 the Company allotted 1,902,748 Ordinary Shares to Company bondholders as part of the conversion of Company convertible bonds (as detailed below). Pursuant to the terms of such agreement these shares were listed for trading on the stock exchange in Belgium and are not subject to any lock-up arrangements. 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, due to the sharp decline in price of Company shares on the Belgium stock exchange (which, at the time, were priced on average at €1.1825), and the Company's concern that in view of the large gap between the share price at the time and the original conversion price as per the original bond agreement, bondholders would choose to demand repayment of the bonds, at a total amount of 115% of the principal amount (€3,000,000) (as well as interest payment at 4% per annum) rather than convert the bonds, and the associated need for large cash amounts which would hamper the Company's cash flow on the anticipated repayment date, the Company decided, after reviewing the cost of alternatives available to it (as detailed below), to sign an appendix to the original bond agreement with bondholders, thereby amending said agreement and changing bond terms (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 (which even after allotted such bondholders would not be deemed affiliated parties based upon the information relating to their holdings available to the Company on the date of this report); (d) Listing the conversion shares for trading on the stock exchange in Belgium, which was already performed. The Company estimated that conversion of the bonds (even though at a substantially lower price) along with postponement of repayment of the remaining bonds not yet converted for 10 quarters (even though at a higher interest rate) was preferable to the cost involved with raising external capital and/or reducing Company expenditure on research, development and marketing for repayment of the original bond principal as detailed above. As of the date of this report, the bond principal stands at €594,000 convertible, as per the terms above, to 125,631 Ordinary Shares.

1.4.3 In May 2004 the Company published a prospectus in Israel (hereinafter: the "**2004 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 (see section 4.10.2 below). These shares and securities were allotted on May 19, 2004 and were listed for trading on the Tel Aviv Stock Exchange. The net proceeds for these securities, net of issuance fees, was about NIS 34 million.

1.4.4 On June 22, 2004 the Company issued to three of the underwriters of the 2004 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 2004 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 2004 Prospectus and/or will be derived from the exercise of the convertible securities issued there under. On July 12, 2004, 800,000 Ordinary Shares offered and issued under the 2004 Prospectus were listed for trading on the EuroNext Stock Exchange (in addition to 10,876,546 Ordinary Shares which were traded there up to 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 2004 Prospectus will be listed for trading on the EuroNext Stock Exchange at a later date to be determined specifically 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 2004 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. As of the date of this report, the lock-up arrangements have expired.

1.4.7 Due to relatively low prices of shares on the Tel Aviv and Belgium stock exchanges, and as a vote of confidence in the Company and its operations, the Company purchases from time to time, commencing from August 2005, its Ordinary Shares within the framework of trading on the stock exchange (these acquisitions were effected at prices of between NIS 3.23 and NIS 5.5 per share). On June 22, 2006 the Company's board of directors approved a further purchase of Company Ordinary Shares for the total sum of about NIS 2,000,000 on similar terms and at prices under NIS 6.50 per share. Up to December 31, 2006 the Company held a total of 552,425 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 2.6 million 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.

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. Since the above allotment was approved by the Company's Audit Committee which comprised only one external director (in the absence of Ron Mishael himself, whose first term had expired on the date of the above approval), the Company's Audit Committee and board of directors ratified the above share option allotment on March 27, 2006 and pursuant to approval by the general meeting of Company shareholders on May 9, 2006 the Company's board of directors allotted the share options to Mr. Ron Mishael subject to provisions of Section 102 of the Israeli Internal Revenue Ordinance [New Version] and the Company's 2003 Plan, with the remainder of the terms being similar in essence to terms under which share options had been granted to other directors of the Company under the Company's 1999 Plan (for further details regarding the terms of the options, see section 4.10.3a below).

1.4.9 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.

1.4.10 In August 2006 the Company published a prospectus in Israel (hereinafter: "**2006 prospectus**") under which it offered to the public units comprising of NIS 34 million par value of bonds (Series 2) and 600,000 option instruments (Series 2) which are convertible to Ordinary Shares. These shares and securities were allotted on August 25, 2006 and were listed for trading on the Tel Aviv Stock Exchange. The net proceeds for these securities, net of issuance fees, was about NIS 30 million.

1.5 <u>Dividend Distribution</u>

The Company has not distributed dividends since it was established. The Company has no plans to distribute dividends in the foreseeable future.

Part II - Other Information

1.6 Financial information on the Company's sectors of activity

1.6.1 Below is financial information on the Company's sectors of activity:

	For the year ended December 31		
	2006	**2005**	**2004**
	Reported NIS in thousands		
Revenues:			
Products	53,711	37,201	29,883
Systems	40,370	42,862	31,263
Other	700	711	625
Total Revenues (*)	94,781	80,774	61,771
Sector Costs			
Products	36,284	26,703	20,642
Systems	36,123	38,271	26,329
Other	643	638	511
Total	73,050	65,612	47,482
Sector Results			
Products	17,427	10,498	9,241
Systems	4,247	4,591	4,934
Other	57	73	114
Total	21,731	15,162	14,289
Non-attributed expenses	(14,878)	(11,990)	(9,193)
Operating Profit (*)	6,853	3,172	5,096

(*) Consistent with financial statements

	As of December 31	
	2006	**2005**
	Reported NIS in thousands	
Assets used by sector:		
Products	20,125	14,450
Systems	11,721	7,186
Other	269	243
Non-attributed	91,592	75,860
Total Assets (*)	123,707	97,739

(*) Consistent with financial statements

1.6.2 The Company has no inter-sector revenues, and therefore there are no adjustments of the above sums.

1.7 General environment and impact of external factors of Company 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 resources 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, as well as for general information on areas of activity presented in this report below, 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"**). Hereinafter, wherever this report relies on the above market surveys, this fact will be explicitly indicated.

The Company's activity includes, as explained above, the activities of the Products Department (design, manufacture, marketing and support of PLCs and related products) and the activities of the Systems Department (design, construction and maintenance of automated logistics systems, mainly automated warehouses and distribution centers). Company management estimates that these two activity sectors are affected by the increasing need for the application of automation stemming from the factors explained above, and by the state of the global 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, while other sectors are presented as more affected, e.g. the food and beverage industry where the ARC report describes an anticipated continued annual growth rate of 6.7%, while the IMS report describes an anticipated continued average annual growth rate of 7.3%; as for the building control sector, the ARC report describes an anticipated continued annual growth at a rate of 8.9% while the IMS report describes an anticipated continued annual growth at a rate of 10.9% through 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 manner of management, see sections 1.22 below. For a discussion of information concerning the general environment and external factors relevant to each sector of activity separately, see sections 1.9 and 1.10 below.

Part III - Description of Company business by sectors of activity

1.8 Overview - synergy between Company's sectors of activity

The Company engages, as stated above, in the products sector, in the design, development, manufacture, marketing, sale and support of industrial automation products, mainly PLCs, and in the systems sector, 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.

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. Furthermore, both sectors (products and systems) concurrently use many common amenities (as detailed in Part IV below). The Company's CEO, together with its management, implement the mutual contribution and feedback as aforesaid on an ongoing basis.

1.9 **The Products Sector**

1.9.1 Structure of the activity sector and changes thereto

The Company's main products are PLCs which integrate, within a single unit, the control components (hardware and software constituting the active part of the PLC, or its "brain") and the interface components (HMI - Human-Machine Interface) intended to allow the operator to control the PLC and using the PLC, control the instruments under PLC control, with no prior knowledge of programming required. Integration of the control and interface components in a single unit is a feature which, to the best of the Company's knowledge, has only become established in the realm of industrial controllers in the 1990s. As far as the Company knows, up until then the PLC market contained mostly PLCs without an integral operation and control interface, which is an integral part of the PLC, as well as PLCs with a complex integral interface and limited computational and data processing capabilities.

1.9.2 Regulatory Requirements

The manufacture and/or marketing of products in the field of control and automation is subject to various regulatory requirements 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 regulatory requirements 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 came into effect on July 1, 2006. This directive limits the use of six substances in electric and electronic equipment 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 1.9.22 and 1.9.23 below.

1.9.3 <u>Changes to scope of sector operations and its profitability</u>

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) <u>PLCs of various sizes</u>: 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 1.9.8 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) <u>Areas of Application:</u> Concurrently with the increasing need for automation as explained above, the global and local economy affect 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 beverage industry, which accounts for 12% of this market, will grow between these years by approx. 6.7% per year. Machinery manufacturers, which account for approx. 11% of the global industrial PLC market, are expected to grow between 2004-2009 by approx. 6.4% per annum. 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.

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 estimates 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. The ARC Report estimates 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).

1.9.4 Technological changes which may potentially have a material impact on the sector

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

[1] The information concerning possible decline in profitability for companies engaged in the PLC field, including Unitronics is forward-looking information. The principal data serving as a basis for this information is the information presented in a number of market surveys in the field as detailed in Sections 1.7 and 1.9.3 above, and in particular, the information regarding the anticipated development of the PLC market on the one hand and the competition in this field and the competitors involved therein on the other hand, and the Company's estimation regarding the possible decline in PLC's market prices. The principal factors that are likely to prevent this information from being implemented are: rates of increase of the market differing from those anticipated, involvement of the main players in this field in a manner differing from the anticipated manner and the development of sub-markets in the PLC field coupled with increased professionalism and focus by various producers on their own special niche areas, which may mitigate such possible price decline.

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 including using color screens in equipment and machinery. 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 1.9.8.1 and 1.9.10 below.

1.9.5 Critical success factors in the sector and changes thereto

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.

1.9.6 Principal barriers to entry and exit of the sector and changes thereto

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 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 there are no material exit barriers from the sector.

1.9.7 Competitive landscape in sector and changes thereto

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.

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 the size of the local market, its share of the local market nor its share relative to other PLC manufacturers / importers in Israel. 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.

1.9.8 Products and services

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

1.9.8.1 PLCs and expansion units

The Company designs, develops, manufactures, markets, sells and supports several series of PLCs. These PLCs are 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 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. 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, thereby providing access to data and/or means of control for different levels in the organization, from production machine operators within the organization, through the organization's planning and control levels (including raw material inventory planning, finished goods etc.) and all the way to senior management or even people outside the organizations. Below are certain major attributes which distinguish among PLCs in the above categories:

	Nano PLCs	Micro PLCs	Small PLCs	Medium PLCs
Major relative advantages	Highly compact; low cost; appropriate for control and automation of only the most basic tasks	Efficient price / performance ratio; appropriate for control of simple tasks and operation of relatively simple equipment	Larger I/O capacity and more robust supporting software, in a relatively compact package; appropriate for command and control of complex automation tasks	Capacity to process large input volumes and control multiple inter-related automation components
Major industrial applications	Simple industrial automation tasks, scheduled building controls, environmental systems (irrigation, air conditioning etc.), safety systems	Micro PLCs, small PLCs and medium PLCs are typically used to control simple and complex automation tasks in most industrial applications, including in the automotive, food processing, chemical, pharmaceutical, metal, mining, paper, plastic, conveyance system and packaging industries.		

The main series of PLCs and expansion units manufactured by the Company include:

(a) Alphanumeric PLCs, nano/micro PLCs of M90/M91 series: A series of palm-sized products, with an interface containing 15 programmable keys and a mini LCD screen with 1 or 2 lines of alphanumeric characters and 16-38 built-in input/output points, expandable up to an additional 96 input/output points via external expansion unit (see sub-section (f) 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) The Vision230™ with graphical display, keyboard containing 24 programmable and customizable keys and expandable input/output points; (2) The Vision260™ with larger, illuminated LCD screen including a graphical display, keyboard containing 33 programmable and customizable keys and expandable input/output points up to 153 points using an external expansion unit (see sub-section (e) below); The Vision120™ in palm-size package, with small illuminated LCD screen with graphical display, keyboard containing 16 programmable and customizable keys and expandable input/output points.

(c) Graphic PLCs with a touch screen: PLCs of the Vision280™ and Vision290™ series: A series of products with a larger, illuminated LCD screen permitting graphic display and operation using the screen (a touch screen). The operator's interface 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 sub-section (f) below). The enhanced computation 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) Graphic PLCs with a color touch screen: PLCs of the Vision290-Color™ and Vision570™ series: A series of products with a larger, illuminated color LCD screen permitting graphic display and operation using the screen (a touch screen). The operator's interface 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 sub-section (f) below). The color display feature integral to this PLC is in line with market trends, which demand friendlier user interfaces and application of color displays in many machines and devices.

(e) Graphic PLCs: nano-PLCs of the Jazz™ series: a series of PLCs smaller than current products and at lower cost than current products. This series includes palm-sized products, with an interface containing programmable keys and a mini LCD screen as well as a small number of integral input/output points, which are not expandable. The first units of this series are being marketed since the first half of 2006. The objective of this series is, *inter alia*, to provide a substitute for "smart relays" using a complete PLC at low cost, thereby expanding the Company's range of products and allowing its customers to purchase additional products from the Company, which they currently purchase from its competitors. An expanded range of products is also intended to support the expansion of the Company's client base by allowing accessibility to potential new clients.

(f) 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.

(g) Accessories: The Company provides complimentary accessories for the above PLC series and expansion units, including such components as cables, adapters, programming kits, user guides as well as products not manufactured by the Company, such as cellular modem units, power suppliers and protocol converters. These accessories are intended to provide a complete solution for the customer from a single source, thereby improving the flexibility and fit of the various PLCs to each user's specific, various needs and to reduce costs associated with purchasing the ensemble of components required for the application.

The Company's products are focused on a range of up to 150 I/O points per individual PLC. In the future the Company may expand its activities into the realm of larger PLCs, allowing operation of a higher number of I/O points (see section 1.9.10.2 of this report).

1.9.8.2 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 and Jazz™ series, while the Company's VisiLogic™ software serves PLCs of the Vision™ series. These software programs operate in the Microsoft Windows environment and are designed to also 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 (e.g. changing displays according to progression of manufacturing process along an industrial assembly line.)

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) Software 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 for management of warehouses, marketed under the name UniStock™, intended to enable command, control and management of automatic and/or manual storage systems (software 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 (software known in the industry as MFC - Material Flow Control). The Company also has software 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 multiple languages (including Hebrew) and to communicate with enterprise 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.

1.9.8.3 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 1.9.14 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 the Company's older products and are designed to continue doing so. The average age (i.e. the average duration of product availability on the market) 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 (for details of R&D activities, see section 1.9.18 below).

1.9.8.4 Services

Services of the Products Department are primarily technical support for Company products, and are delivered by a technical support team offering pre-sale support services for purchasing Company products (mainly consulting for customization of products to each customer's specific needs), post-sale training and technical support for implementing the products and/or troubleshooting. Applications to the support team usually originate from the Company's distributors (see section 1.9.12.2 below), from direct end users and from indirect end users (who purchased the Company's products from distributors in Israel or abroad). These applications are processed by support staff, with involvement of lab, development and marketing staff of the Company as required.

The Company typically provides 12-48 month warranty for its products. The Company also provides technical support services for its distributors prior to actual sales (pre-sale services), at the Company's discretion on a case-by-case basis. The Company does not make provisions for warranty due to its insignificance (absence of applications and/or applications for insignificant sums).

1.9.9 Revenue segmentation and profitability of products and services

The Company's revenues from its activity in the products sector amount to approx. 48%, 46% and 57% of its total revenues in 2004, 2005 and 2006, respectively. The various series of the Company's major products contribute to its profitability with no material differences among them. The insignificant changes to profit margins of the Company's Product Department operations between 2004-2006 are primarily due to different (though not significantly different) profit margins of several transactions, combined with increase in labor costs during this period which was required for manufacturing to support the continued growth.

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

	For the year ended December 31		
	2006	**2005**	**2004**
	In NIS thousand(*) (and percentage of total revenues/gross profit, approximated)		
Products (**) (***)	(57%) 53,711	(46%) 37,201	(48%) 29,883
Gross profit (amount and rate)	(49%) 26,290	(50%) 18,700	(51%) 15,343

(*) The financial data for the years 2004, 2005 and 2006 are in NIS thousands 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.

(***) Company products sell in volumes of tens of thousands of products each year.

1.9.10 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 development of these technologies and/or products will be completed, or if completed, that a market for them will exist[2] .Below is a brief description of major technologies and products in different stages of development by the Company.

[2] The information concerning development of these new products and market recognition for them is forward-looking information. The principal data serving as a basis for this information are the engineering stages in the development of the technology as of the date of this report, which do not yet allow for significant technical feasibility at competitive market prices, the need for continued substantial investments in R&D expenditures, for which there is no assurance that they will be available at all to the Company or to the required extent, as well as the need to educate markets and consumers on the use of distributed control systems and/or technologies under development. The principal factors that are likely to prevent this information from being implemented are: completion of development stages to indicate the high probability of technological feasibility at competitive market prices, and development of markets and consumer culture appropriate for distributed controllers and/or technologies being developed by the Company.

1.9.10.1 <u>WilCo™ (internal name) - command and control via decentralized PLCs</u>: The Company continues R&D activity of 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) <u>Wireless PLCs:</u> 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) <u>D-Cent™ - centralized/decentralized command and control system</u>: 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 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) c) <u>WebAx-Control™ - network access platform</u>: 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 (which have yet to complete the technology feasibility stage). Nevertheless, due to low participation share of the Chief Scientist of the Ministry of Industry and Trade in financing this development (see section 1.9.18 in this report), the Company has decided to divert the focus of its development efforts to other products (see section 1.9.10.2 in this report) while continuing development of the WilCo™ technology at a slower pace [3]Some deliverables from

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[3] Information about completion of development of components of the WilCo™ technology is forward-looking information. The principal data which served as a basis for this information are: analysis of actual progress made in development stages; analysis of the Company's ability to market these components of the technology; and the potential for its market acceptance. The main factors which may prevent this information from materializing are

development of the WilCo™ technology are currently being sold as modules intended for integration with current Company products, in order to expand certain capabilities of the current products, such as a Ethernet network connectivity expansion card for PLCs of the Vision™ series. 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 as well as a patent application in accordance with the international patent cooperation treaty (PCT) (see section 1.13 in this report). The Chief Scientist at the Ministry of Industry and Trade participated in financing part of the development program associated with this technology (see below).

1.9.10.2 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 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 which the Company completed development at the end of 2005 as described in Section 1.9.8.1 above, and a series of colored PLC's described in Section 1.9.8.1 above the initial items of which were launched at the end of 2006, 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 [4]. 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 Company's competitors. The broader product line is also intended to expand the Company's customer base by providing access to new potential customers. Development of these products has yet to pass the technological feasibility stage.

1.9.10.3 "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™ package), so as to significantly reduce the reliance on

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the extent of investment required for such activity, which may significantly exceed Company budget for such items; restrictions on Company ability to commercialize these technologies at competitive market prices; as well as absence of developed markets and consumer culture appropriate for use of the technologies being developed – in addition to general risks outlined in section 1.22 of this report.

4 The information concerning development of products in dimensions outside the existing range of Company products 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 1.9.3.1 above, analysis of market needs and consumers' preferences as reflected through the Company's direct contacts with the markets, technological feasibility, the Company's estimations as to anticipated costs of funding such developments as well as the strong competition in this field as detailed in this report. The main factors which may prevent this information from materializing are the extent of investment required for such activity, which may significantly exceed Company budget for such items; restrictions on Company ability to commercialize these technologies at competitive market prices or at all; as well as absence of developed markets and consumer culture appropriate for use of the technologies being developed – in addition to general risks outlined in section 1.22 of this report.

software adjustments specific to users' needs[5].

1.9.11 Customers

1.9.11.1 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. In general, the Company has no direct contact with end customers, who are in contact with various distributors for customization, installation, warranty needs etc.

1.9.11.2 Major Customers: For details see section 1.9.12.3 in this report.

1.9.11.3 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.

1.9.12 Marketing and distribution

The Company's products and services are marketed and sold through the Company's internal marketing infrastructure, a network consisting of some one hundred and forty distributors (of which approx. 80 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. The Company estimated that the marketing and distribution operations (as detailed above) are expected to grow over the coming quarters[6].

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5 The information concerning planned changes to management and control software programs and the ability to reduce the need for specific software customizations to user 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 1.9.3 in this report, analysis of market needs and consumers' preferences as reflected through the Company's direct contacts with the markets, technological feasibility, and costs of funding such potential developments as well as the strong competition in this field as detailed in this report. The main factors which may prevent this information from materializing are the extent of investment required for such activity, which may significantly exceed Company budget for such items; restrictions on Company ability to upgrade such software programs as required for marketing them as off-the-shelf products and the superior financial and technological means available to a major part of the Company's competitors – in addition to general risks outlined in section 1.22 of this report.

6 The information with regard to the expected growth in marketing and distribution operations 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

1.9.12.1 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 prior to and for the purpose of purchasing the Company's products (mainly advice for the purpose of adjusting 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). These applications are processed by support staff and, if required, also with the involvement of the Company's development and marketing staff.

1.9.12.2 Distributors: The Company's products are distributed through distributors in Israel; Europe (Austria, Belgium, Bulgaria, Belarus, Croatia, Czech Republic, Cyprus, Kazakhstan, Azerbaijan, Uzbekistan, 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, Vietnam, Japan, New Zealand, Singapore, South Korea, Taiwan and Thailand); Africa(South Africa and Nigeria); South and Central America (Argentina, Brazil, Chile, Columbia, Mexico, Venezuela 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 comprehensive agreements for installing a system), for limited periods (usually one year) renewable subject to performance of specified minimum sales or subject to the Company's discretion in the event that the distributor fails to perform the agreed 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.

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markets in which the Company is not active and marketing activities of competitors).

1.9.12.3 Material distributor: The Company's revenues from one of the distributors of its products constituted 5%, 5% and 5% of its general revenues in 2004, 2005 and 2006, 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. At the end of 2006, this agreement was extended through February 2007 and later on through March 2007. Concurrently, negotiations are under way to sign a new distribution agreement (on similar terms, other than the option for mutual termination upon 15 month prior notice), which the Company estimates will be signed in the near future.

1.9.12.4 Sales promotion: The Company promotes its sales primarily through: (a) a website (http://www.unitronics.com) 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.

1.9.13 Order backlog

As of December 31, 2006 the Company had an order backlog of approx. NIS 4.9 million (approx. $ 1.16 million) for the Products Department, and as of March 6, 2007 the Company had an order backlog of approx. NIS 6.46 million (approx. $ 1.53 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, 2006 NIS in thousands	Product order backlog as of March 6, 2007 (closest possible date to date of this report) NIS in thousands
For Q1 2007	3,095	3,946
For Q2 2007	1,062	1,177
For Q3 2007	491	757
For Q4 2007	221	585
For 2008 and thereafter	-	-
Total	4,869	6,455

Differences in reported order backlog for different periods arise from changes to delivery schedules of ordered products on the one hand, and from receipt of new orders on the other hand, all within the ordinary course of the Company's business.

1.9.14 Competition

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 estimates 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 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.

As mentioned in section 1.9.7 in this report, 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.

1.9.15 Seasonality

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

1.9.16 Production capacity

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). As for production operations within the Company, as of the date of this report most of the production capacity is utilized, but 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 average production time for most of the Company's products is about 3 months, with the actual delivery lead time for Company products being usually shorter, depending on the order volume and the finished goods inventory available to the Company as of the date of every such order.

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 2006, 2005 and 2004 constituted 5%, 2.9% and 3.8% 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). The Company estimates that replacing a subcontractor as mentioned above is not expected to cause material extra costs.

1.9.17 Fixed property and facilities

The Company has no fixed property or facilities specific for the sector, and it uses its fixed property and facilities in both sectors (for details, see section 1.12 below).

1.9.18 Research and Development

For details regarding products and technologies under development, see section 1.9.10 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		
	2006	2005	2004
	NIS in thousands (*)		
Payroll and benefits	5,726	3,837	3,111
Subcontractors	464	286	172
Other expenses	2,331	1,670	1,374
Less Chief Scientist participation	-	(40)	(365)
Total R&D Expenses	8,521	5,753	4,292

(*) The financial data for the years 2004, 2005 and 2006 are in NIS thousands as reported.

During 1992 through December 31, 2006 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 program	Date of approval	Approved R&D expenses	Grant share	Grant amount	Implementation period according to letter of approval
Four programs for previous generation PLCs whose sales constituted an immaterial percentage (under 1%) of the Company's revenues in 2004 and later	1997 - 1992	₪ 4,695,535	30%-50	₪ 1,888,221	1997 - 1992
Wilco™ PLC	1/7/03	₪ 1,644,268	40%	₪ 657,707	30/4/04 - 1/5/03

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). As stipulated by the approval document for Chief Scientist participation in financing part of the Company's development program concerning the WilCo™ series of products, the Company is required to pay royalties not only in conjunction with sales of products of the WilCo™ series, but also in conjunction with sales of: (1) any Company PLC including an integral short-range radio modem as part of the PLC and which uses Mesh topology, as well as (2) any Company PLC with TCP/IP based Ethernet communications as an integral part of the PLC, to create a dedicated communications channel using a central server for assistance in location and mapping of PLCs over the Internet (for further information regarding development of WilCo™ products, see section 1.9.10.1 in this report).

The letters of approval are conditioned upon 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. The Company is also prohibited from transferring knowledge developed with financing assistance from the Chief Scientist, to any third party without prior consent of the Chief Scientist. Up to December 31, 2006 grants to the Company under these programs were approved in a total sum of NIS 2,473 thousand. From 1992 to 2005 and through December 31, 2006 the Company paid royalties to the Chief Scientist in a total sum of NIS 130 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, 2006 is approx. NIS 2,420 thousand. As of the date of this report, the Company has met its liabilities to the Chief Scientist.

1.9.19 Human Capital

Activity of Company staff is by departments, with staff employed and involved in both of the Company's sectors, while the staff of each department focuses primarily on their own issues (for details see section 1.14 below).

1.9.20 Raw materials and suppliers

1.9.20.1 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 2004, 2005 and 2006), 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.

Below is a summary of the above data in table form:

	Off-the-shelf components	**Custom made components**
Multiple manufacturers / suppliers with no need for customization	88%	6%-7%
Multiple manufacturers / suppliers; need for little customization (potential delay of up to 3 weeks)	4%	
Single manufacturer; multiple suppliers; replacing the manufacturer may cause significant delays and may involve changes to products and associated costs	1%-2%	

1.9.20.2 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 there under in respect of particular items is subject to prior notice.

1.9.21 Working Capital

1.9.21.1 Inventory: The Company holds on a regular, ongoing basis about 60-100 days of components and raw materials inventory for forecasted requirements for a period of about two months. In addition, the Company holds a finished products inventory for supplying current orders for some 45-75 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 product returns and has not yet been required to deal with this. The Company implements, starting in Q1 of 2006, new means of inventory conservation, primarily focused on increasing the finished goods inventory on hand at the Company, and its forwarding in some of the markets to sites closer to the distributors, in order to assist the distributors and customers and to make Company products more accessible. As part of the above move, the Company currently reviews various options for establishing distribution centers at various locations around the world where inventory is to be stored[7] .

1.9.21.2 Warranty: The Company typically provides a 12-48 month warranty for its products.

1.9.21.3 Credit extended: Customers of the Products Department are typically extended 30-60 days' credit. Below are data on average extent of supplier credit, as well as subcontractor and customer credit for the Products Department:

7 The information regarding the 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 additional verifications regarding the effects of said changes on the sales volume.

	2006		2005		2004	
	Average credit in NIS thousands	Average credit days	Average credit in NIS thousands	Average credit days	Average credit in NIS thousands	Average credit days
Customers	3,946	27	4,045	40	3,050	37
Suppliers	2,822	55	2,993	92	2,202	69
Subcontractors	540	48	586	82	465	71

1.9.22 Environmental Issues

As detailed in section 1.9.2 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 bindings on EU citizens, subject to local legislation in each member state. 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"

Company products include, among others, PLCs and expansion units (as detailed in section 1.9.8.1 above), which are defined as electric and electronic equipment, and as such are subject to the WEEE Directive. The main 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.

From checks conducted by the Company it would seem that as of the date of this report, the Company's products (as defined and used) are not currently required to fulfill the provisions of the WEEE directive. Nevertheless, the provisions of this directive may apply to Company products in the future, and hence the Company follows 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. With regard to marketing 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 estimates that when the exact requirements for each country become clear, it can prepare by using appropriate marking, collection and recycling arrangements with its distributors and/or in any manner appropriate for the legal requirements applicable in each country [8] As of the date of this report, the Company

8 The information concerning Company preparations for complying with the WEEE directive is forward-looking information. The principal data serving as a basis for this information are the developments currently known to

has made insignificant expenditures for activities designed for compliance with the provisions of the directive. The Company estimates that it will not spend material sums associated with compliance with these provisions over the next year and/or in periods thereafter.

1.9.23 Regulatory Requirements and Quality Control

The Company has a lab, equipped so as to enable the Company to check its finished products, including their mechanical and operational attributes, as well as their software components. This lab maintains contact with other test labs in Israel and abroad.

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 labels these products using 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. As mentioned, the Company operates a lab for checking the proper functioning of finished products, including mechanical and operational properties, and software components.

As mentioned in section 1.9.2 above, the Company concurrently works to implement the EU's RoHS (Restriction of Hazardous Substances) directive, which limits the use of six substances in electric and electronic equipment marketed in Europe after July 1, 2006. The restriction on the use of these substances necessitates changes in the electronics industry throughout the world including in the field of components production and soldering processes, which affect the components, the printed circuits and the solders (soldering alloys).

From checks conducted by the Company it would seem that as of the date of this report, the Company's products (as defined and used) are not currently required to fulfill the provisions of the RoHS directive. Nevertheless, provisions of the directive may apply to Company products in the future, with the major implications of the Directive's applicability being 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 2005 and 2006 the Company was involved in implementation of this directive by

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the Company 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 the diverse implementations in the various countries, changes to directive provisions and/or their interpretation 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.

recruiting several full-time engineers engaged in identifying components of Company products which are not RoHS-compliant and replacing them with compliant components, purchasing of RoHS-compliant components and specification of manufacturing processes, including soldering, for RoHS-compliance. Concurrently, this issue is correlated with the readiness of electronic component vendors to deliver compliant components. As of the date of this report, the Company has made insignificant expenditures for activities designed for compliance with provisions of the directive, and the Company estimates, as of the date of this report, that most of its products comply with provisions of the directive (as currently phrased). The Company estimates that it will not spend material sums associated with compliance with provisions of this directive over the next year and/or in periods thereafter [9]

Compliance with the above regulatory requirements may be a binding legal requirement for marketing Company products in some of the Company's target markets, and in other markets it is a market requirement, although not a formal legal requirement. There is no assurance that the Company will successfully comply with requirements imposed on its products in order to comply with these or other regulatory requirements, should they be required, and failure to comply with such regulatory requirements may limit the Company's ability to market its products in some of its target markets.

1.9.24 Business objectives and strategy

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 (including use of color displays, becoming prevalent in control panels for many systems), small PLCs incorporating communications and network support, and PLCs supporting decentralized architecture. Target market segmenting (for further details see sections 1.7 and 1.9.3 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

[9] The information concerning Company 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 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 different implementations in different countries, completion of the engineering stages needed to complete the implementation of changes to provisions and/or interpretations of the directive, as well as delays in compliance of component and assembly vendors, who are also required to meet these requirements.

responses from its distributors and customers. There is no assurance regarding the Company's ability to actually improve current products and to develop new products, and this depends, among others, on analysis of market needs and consumer preferences as expressed in informal contact the Company maintains with such markets, technological feasibility, cost of potential development as well as the severe competition in the sector, as detailed in this report.

The Company 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. There is no assurance regarding the Company's ability to maintain and develop its marketing channels for its products, and this depends, among others, on analysis of marketing attributes and markets for Company products conducted by the Company from time to time, and the evolving nature of PLCs as off-the-shelf products and as consumer products, as detailed in this report.

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 1.9.21.1 above.

1.9.25 Development forecast for the upcoming year

The Company estimates that it may be difficult to maintain the rate of growth in product sales which has characterized recent years. In order to keep up the growth in product sales, 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 response to those offered by the Company's competitors.

The Company intends to continue developing, amongst other things, additional series of PLCs and/or new control products, as detailed in section 1.9.10 above [10] .

1.9.26 Financial information by geographical segments

Company products are sold mainly in Europe, Israel, North America, Latin America, Asia and Africa.

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10 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 1.9.10 above.

Below are relative data regarding Company revenues from product sales by major geographical region for the indicated periods, out of Company revenues from Products Department operations alone, and out of total Company revenues:

	For the year ended December 31					
	2006		2005		2004	
	In percent					
	Share of Products Department revenues	Share of total Company revenues	Share of Products Department revenues	Share of total Company revenues	Share of Products Department revenues	Share of total Company revenues
Europe	53%	30%	45%	21%	51%	25%
Israel	9%	5%	11%	5%	13%	6%
North America	21%	12%	26%	12%	20%	9%
Latin America	10%	6%	8%	4%	8%	4%
Asia	4%	2%	7%	3%	6%	3%
Africa	-	-	1%	1%	1%	1%
Rest of the world	3%	2%	2%	1%	1%	1%

For additional data regarding Company operations by geographic region, see note 29 to the financial statements (Chapter 3 of this report).

1.10 **Logistics Systems Sector**

1.10.1 Structure of the sector and changes thereto

The computerized and automated logistics systems sector includes automated warehouses, distribution centers with automatic elements (such as an automated warehouse), automatic parking garages 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.

1.10.2 Legislation, Regulatory and special constraints applicable to sector

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 section 1.10.19 below.

1.10.3 Changes to scope of sector operations and its profitability

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)[11],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 by this 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 [12]However, at the same time the Company estimates that owing to the extensive competition in this field, its profitability may be reduced in the future.[13]

At the same time, the Company's Israeli installations base, which the Company estimates to be broad as compared with its competitors, may assist the Company to provide more

11 The above market survey is the most current source available to the Company. Nevertheless, as far as the Company knows, other sources exist on this issue which are not available to the Company.

12 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 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 1.22 below.

13 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 1.10.5 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.

efficient service and technical support, and enhance its capacity to be chosen for implementing new projects of this type in the future.

The automatic parking garage sector has been in existence for many years, but in recent years it has expanded with proliferation of vehicles, dearth of parking spaces in cities and increasing cost of land. Technically, the automatic parking garage sector may be associated with that of automated logistics, and has components and technical features similar to those of automated warehouses and the conveying technologies applied to it. The Automated Mechanical Parking Association (AMPA) established in the USA claims that this sector is expanding in the USA. Research by Market-Data Enterprises Inc dated April 2005 (abstract publicly accessible at http://www.mkt-data-ent.com) estimates the total parking market in the USA alone at $17 billion.

1.10.4 Technological changes which may potentially have a material impact on the sector

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.

1.10.5 Competitive landscape in sector and changes thereto

The construction of automatic logistics systems involves the integration of different disciplines including, amongst others, mechanical and engineering design, construction (including foundations, shell and other construction components), 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 too, 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.

1.10.6 Barriers to entry/exit and critical success factors in the sector and changes thereto

The Company estimates that in the systems sector, the major barriers to entry include the knowledge and experience required for analysis and design of logistics systems within organizations; the duration of sale processes for logistics systems, due to the conservative nature of target markets for such systems; complex software systems for warehouse management and control technologies for conveying systems within such systems; and the required support and maintenance in order to provide the level of service and availability required of such systems. The Company estimates that the major exit barriers are its commitment to complete projects for delivery of systems according to signed contracts, and its commitment to provide service for systems created under signed annual service contracts.

The Company estimates that, for the systems sector, the key success factors include the knowledge and experience accumulated by the Company in design and implementation of such systems; the range of solutions in response to market needs and trends; the functional reliability of various components, including the software and control systems being offered; and the high level of service and support which promotes Company reputation and customer loyalty.

1.10.7 Products and services:

The systems sector does not include products (other than custom software for management of logistics and production floor systems - see section 1.9.8.2 above and section 1.10.7.1 below), but is rather focused on delivering various services, primarily design, implementation and maintenance services as part of automation, computerization and integration projects of automated production and/or logistics systems, mainly automated warehouses and distribution centers (as detailed below).

1.10.7.1 Automated 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, and (d) Command and control systems for the mechanical components of the logistics system, including PLCs, sensors and control software programs. Sometimes these components may also include infrastructure components, such as foundations, shell, ceiling and other structural elements.

These services are provided mainly to customers in Israel, and in a few cases also to customers outside 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^{TM} (WMS) software and the UniTrack^{TM} software - see section 1.9.8.2 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.

1.10.7.2 Trends and changes

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 the USA), 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.

1.10.8 Revenue and profit segmentation

The Company's revenues from its activity in the systems sector amount to approx. 51%, 53% and 43% of its total revenues in 2004, 2005 and 2006, respectively. The bulk of the revenues from this activity derive from customers entering with the Company into onetime transactions for the purpose of constructing one system only. The profit margin contribution 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.

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

	For the year ended December 31		
	2006	2005	2004
	In NIS thousand(*) (and percentage of total revenues/gross profit, approximated)		
Systems	(43%) 40,370	(53%) 42,862	(51%) 31,263
Gross profit (amount and rate)	(15%) 6,257	(14%) 6,113	(19%) 5,886

(*) The financial data for the years 2004, 2005 and 2006 are in NIS thousands as reported.

1.10.9 Customers

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 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 (installed by the Company or by a third party). 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.

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 6,300 thousand. Within this framework the Company is obligated, by letters of obligation associated with issuance of bank guarantees to: (a) repay any amount demanded by the bank and/or paid by the bank due to or in conjunction with said guarantees, and to repay all amounts to the bank with interest at the highest rate and bank fees; (b) indemnify or make whole the bank in any case of legal proceedings or claims made against the bank, resulting in damages, expenses or losses to the bank in relation with the guarantees, either directly or indirectly; and (c) waive any claims against the bank with regard to providing the guarantees.

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.

Major Customers: 10% or more of the Company's consolidated revenues in the periods detailed below derive from customers who have ordered automated logistics systems who enter into a non-recurring 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 impact Company revenues.

Below are the shares of such customers from revenues of the Systems Department and of overall Company revenues:

	For the year ended December 31					
	2006		**2005**		**2004**	
	Share of total revenues (in percentage terms)					
	Of sales of Systems Department	Of total Company sales	Of sales of Systems Department	Of total Company sales	Of sales of Systems Department	Of total Company sales
Customer A	1.2%	0.5%	20%	10%	33%	17%
Customer B	2%	0.8%	38%	20%	23%	12%
Customer C	39.7%	16.9%	13%	7%	*1%	*0%
Total sales to major customers	42.9%	18.2%	71%	37%	57%	26%

* These revenues are not due to Material Agreement C (as detailed below), but from certain work delivered by the Company for the specific customer.

Agreements with major customers: below are the major terms and conditions of agreements between the Company and those customers whose revenues account for 10% or more of the Company's consolidated revenues for the periods above, in addition to general terms and conditions applicable to such agreements as per section 1.10.9 above:

(a) Material agreement A: Under an agreement from February 2004 between the Company and principal customer A (Teva Pharmaceutical Industries Ltd.), 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.

(b) Material agreement B: Under an agreement from July 2004 between the Company and principal customer B (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. Installation of the system was completed in accordance with the terms of the agreement with the customer in the course of 2005.

(c) Material agreement C: Under an agreement from June 2006 between the Company and principal customer C (Tnuva Cooperative Agricultural Produce Marketing Ltd.) which became effective in April 2006 [14], the Company undertook to design, supply and install an

[14] Actual project execution started in Q4 of 2005 as detailed in the table above.

automated logistics system for the Beer Tuvia regional distribution center for a total cumulative amount of €3.7 million (NIS 21 million) plus VAT. By the terms of this agreement, the project is scheduled for completion in Q2 of 2007.

(d) Material agreement D: According to an agreement signed in December 2006, between a fully-owned US subsidiary of Unitronics and principal customer D (City of Hoboken, NJ in the USA), the Company undertook to repair and upgrade an automated parking system operating in the city by repairing mechanical and electrical systems and replacing software and control systems for a total amount of about \$2 million (about NIS 8.4 million). According to terms of the agreement, payment is due in full upon completion of the project. Pursuant to the terms of the agreement, the project is expected to be completed during the second quarter of 2007.

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.

1.10.10 Marketing and distribution

Within the systems sector, an internal Company marketing and sales team operates in Israel, including a number of employees handling relations with potential customers, responding to tenders, preparing price proposals, promoting customer relations and locating business opportunities in Israel and overseas, with assistance from the customer's network of distributors as required (for details of the Company's network of distributors, see section 1.9.12 above).

1.10.11 Order backlog

Sales of Systems Department services entail a long sales cycle which requires considerable time and resources, including participation in tenders and presentations, along with other participants, and the services are rendered over a period of 3-15 months, depending on system complexity. Below are data on binding agreements for Systems Department services in the periods as follows:

	Agreements to deliver Systems Department services as of December 31, 2006 - NIS in thousands	**Agreements to deliver Systems Department services as of March 6, 2007 (closest possible date to date of this report) NIS in thousands**
For Q1 2007	10,111	10,078
For Q2 2007	6,853	8,448
For Q3 2007	2,703	3,807
For Q4 2007	1,414	1,882
For 2008 and thereafter	330	330
Total	21,411	24,545

Differences in reported order backlog for different periods arise from changes to milestone schedules of current projects on the one hand, and from receipt of new orders for projects on the other hand, all within the ordinary course of the Company's business.

The change in amounts from one quarter to another are due to growth in orders as well as to delivery of certain elements of projects being shifted from one quarter to another (mostly due to customer non-compliance with pre-requirements for project delivery and/or other delays due to customers).

1.10.12 Competition

The Company has no statistical data to determine the size of the Israeli market however, 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%.

The majority of the Company's competitors are larger and more established companies, with financial and other means significantly greater than those of the Company, including R&D, marketing and sales resources, as well as a recognized brand 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.

The Company competes and intends to continue competing mainly on the basis of the quality of its services compared to that of its competitors (including service functionality, performance and quality of the technical support and customer service provided by the Company). However, there is no certainty that the existing or potential customers will regard the Company's services as more worthy than those of the competitors. Similarly, there is no certainty that its competitors will not develop services that will render the Company's services less competitive.

1.10.13 Seasonality

The Company does not identify in the services sector any significant seasonal pattern. Its services are consumed throughout the year without any fixed seasonal patterns.

1.10.14 Production capacity

In the systems sector, production capacity is in fact the Company's ability to implement logistics projects of scope and upon the schedules ordered, and is primarily based upon the Company's internal staff, whose number was significantly increased in the years 2002-2006 (as detailed in section 1.14 in this report), 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 2007. 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.

1.10.15 Fixed property and facilities

The Company has no fixed property and facilities specific for the sector, and uses the fixed property and facilities in the course of its business in both sectors (for details, see section 1.12 below).

1.10.16 Human Capital

Activity of Company staff is by departments, with staff employed and involved in both of the Company's sectors, with the staff of each department focusing primarily in the specific sector (for details see section 1.14 below).

1.10.17 Suppliers and subcontractors

For the performance of certain of the tasks in accordance with agreements with various customers (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 (for details see section 1.10.9 in this report).

Furthermore, the Company usually links the payment currency and payment date to subcontractors to the payment currency and payment date to the Company by various customers with regard to the major specific component delivered by the subcontractor (back-to-back). This means that typically payment is made to the subcontractor only after receipt of the applicable payment from the customer.

1.10.18 Working Capital

1.10.18.1 Warranty: The Company typically provides warranty for major sub-systems in the systems sector for 12 months on average.

1.10.18.2 Credit extended: Customers of the Company's Systems Department generally are extended up to one month's credit in respect of each payment. Below are data on average extent of supplier credit, as well as subcontractor and customer credit:

	2006		2005	
	Average credit in NIS thousands	Average credit days	Average credit in NIS thousands	Average credit days
Customers	3,389	31	3,136	27
Suppliers	891	98	286	11

1.10.19 Regulatory Requirements and Quality Control

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. Certain 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 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. Specific standards are also in force in Israel in the conveying systems sector, specified by the European conveying equipment manufacturer association, which address, among other issues, the functionality of facilities and systems.

Compliance with the above standards is a binding legal requirement for marketing Company services in some of the Company's target markets, and in other markets it is a market requirement, although not a formal legal requirement. There is no assurance that the Company will successfully comply with requirements imposed on its services in order to comply with these or other regulatory requirements, should they be required, and failure to comply with the provisions of such regulatory requirements may limit the Company's ability to market its services in some of its target markets.

1.10.20 Business objectives and strategy

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. There is no assurance regarding the Company's ability to actually improve current products and to develop new products in the systems sector, and this depends, among others, on analysis of market needs and consumer preferences as expressed in informal contact the Company maintains with such markets, technological feasibility, cost of potential development as well as the severe competition in the sector, as detailed in this report.

The Company further 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 the USA (see agreement with Principal Customer D as per section 1.10.9 above). There is no assurance regarding the Company's ability to maintain and develop its marketing channels for its systems sector, and this depends, among others, on analysis of marketing attributes and markets for Company services conducted by the Company from time to time, and the long and complex sales process for such services, as detailed in this report.

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.

1.10.21 Development forecast for the upcoming year

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

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 - initially primarily focused on the USA[15].

[15] The Company's ability to actually succeed in the development and strengthening of the Company's marketing organization 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.

1.10.22 Financial information by geographical segment

The Systems Department activity is primarily focused in Israel, with a minority of projects in overseas locations.

For additional data regarding Company operations by geographic region, see note 29 to the financial statements (Chapter 3 of this report).

1.11 Other Activities

The Company has a further activity, not included with the major areas of activity above, with insignificant revenues and investments associated with it. This activity is primarily concerned with maintenance and servicing by its subsidiary, Unitronics House Management and Maintenance (2003) Ltd., in conjunction with use of Unitronics House (for details of subsidiary operations, see section 1.21.1 below).

Below are data of Company revenues from operation of the above subsidiary for the indicated periods:

	For the year ended December 31		
	2006	**2005**	**2004**
	NIS in thousands		
Revenues from Unitronics Management operations	700	711	625

Part IV - Matters concerning overall Company Activities

1.12 Fixed property, Facilities, insurance and liens

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

1.12.1 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 a building called **Unitronics House**, covering an area (excluding basement) of approx. 1,600 square meters gross, formally known as part of block 6832, parcel 27 (after initial sub-division of the lot marked #3 on the zoning plan known as GZ/MK/566/1) at the address: Airport City, P.O.B 300, Ben-Gurion Airport, 70100, Israel (hereinafter: "**Unitronics House**"). The Company also leases an additional lot of about one quarter acre adjacent to Unitronics House, serving as parking space for Company staff and visitors. 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 Unitronics House serve as collateral for financing received by the Company for acquiring its rights in the building as detailed in sections 1.16.2-1.16.3 in this report. The balance of the depreciated cost of the Company's Floors as of December 31, 2006 is approx. NIS 18,728 thousand. In its ongoing activity the Company uses all areas of the Company's Floors in Unitronics House. The remaining floors in Unitronics House (floors 2-4) 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 in section 1.12.2 below). The rights in the Private Floors were acquired about one month prior to the Company's rights acquisition in the Company Floors, under a separate contract, unrelated to the Company or to the contract under which the Company acquired its rights in the Company Floors, and at a price per square meter based on the same pricing basis which applied to the Company's acquisition of its rights.

1.12.2 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 House Management and Maintenance (2003) Ltd, with respect to the management of Unitronics House), subject to a 4% increase at the end of every two years of leasing. 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 had 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 under the same terms. On March 25, 2007 the Company's board of directors and audit committee approved the exercise of the above option to extend the lease for an additional 12 month period (for details see immediate report dated March 26, 2007 and section 4.8.2 in this report).

1.12.3 Unitronics Inc.: The Company's subsidiary, Unitronics Inc., rents offices near Boston, Massachusetts from a third party not affiliated with the Company and/or with its controlling shareholders, covering a total area of approx. 1,521 square feet (approx. 141 square meters), let for a 24-month term until March 2009, for annual rent of approx. $ 35,000 for the period through March 2008 and $ 38,000 for the period March 2008 through March 2009.

1.12.4 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 organizations, 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.

1.12.5 Insurance

The Company and its subsidiaries are insured under an insurance policy which the Company estimates provides it with appropriate insurance coverage, as detailed below:

1.12.5.1 Property Insurance

The Company is insured by an extended fire insurance providing insurance coverage for customary risks for such insurance, including fire, earthquakes and other natural damages as well as an "all risk" coverage rider.

1.12.5.2 Insurance for Causal Damages

The Company is insured for fixed expenses and annual net profit of $6,000,000 plus other expenses for $250,000.

1.12.5.3 Third Party Insurance

The Company is insured for third party liability up to $5,000,000 per event and in total for damages which may occur during the insurance period.

1.12.5.4 Directors and Officers Liability Insurance

For details, see section 4.16.4 in this report.

1.12.5.5 Insurance for Unitronics Inc.

The Company's US subsidiary, Unitronics Inc., has insurance coverage separate from that of the Company. Such insurance includes homeowners insurance for $1,000,000 per event and $2,000,000 in total; worker's compensation insurance for $100,000 for accidental bodily injury, $100,000 per employee for bodily injury due to illness and in total $500,000 for bodily injury due to illness; and warehouse insurance for $1,000,000.

1.12.5.6 Other various insurance

The Company holds various other insurance policies, including contractor's insurance, employer's liability insurance, product liability and professional liability insurance, export-import shipment insurance and insurance for merchandise in transit.

1.12.5.6 The Company estimates that the Company is NOT under-insured.

1.12.6 Pledges

Other than pledges detailed in section 1.16.3 in this report, some of the Company's cars are subject to pledges for the benefit of the leasing companies from which the Company leases said vehicles.

1.13 Intangible assets

1.13.1 General: The Company claims copyrights and usage rights with respect to certain technologies, know-how, trade secrets and trademarks (with regard to patents and trademarks, see below).

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.

1.13.2 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 this report, a patent has not been issued for these applications, and therefore the Company has no absolute protection of its rights in these technologies from competing developments independently developed by any third party. The Company estimates, based also on patent research it has conducted and on preliminary correspondence with the US Patent and Trademark Office, that these applications will be accepted[16] .To the best of the Company's knowledge, the time required for actual patent award may be 3-5 years. Nevertheless, there is no assurance that patents applied for by the Company will be granted within the above time frames.

1.13.3 Application for trademark registration: In August 2004 the Company filed with the US Patent and Trademark Office an application to register the trademark "Unitronics" and the Company's logo. On March 14, 2006 these trademarks were registered in the USA as per the above 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. On September 25, 2006 the Company's logo was registered in Europe as per the above application. As of the date of this report, the "Unitronics" trademark has yet to be registered as per the above application.
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 this report, the "Unitronics" trademark has yet to be registered as per the above 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 in section 1.9.8.1 above. As of the date of the report these trademarks have not been registered pursuant to said applications.

[16] Information concerning Company success in obtaining patents based on applications submitted is forward-looking information. The principal data which served as a basis for this information are: patent research conducted by the Company and various checks conducted by Company professional advisors from time to time.
The principal factors that are likely to prevent this information from being implemented are: the existence of prior, competing patents not identified by the Company and/or failure to identify the major attributes and criteria for conducting patent research by the Company, as described above.

The Company estimates, based also on trademark research conducted by the Company and on various checks conducted by the Company's professional advisors from time to time, that there is a good likelihood for its application for registration of such trademarks to be accepted[17].

1.13.4 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

1.13.5 In the years 2006, 2005 and 2004 the Company spent for investment in its intellectual property about NIS 156, 110 and 58 thousand, respectively.

1.14 Human Capital

1.14.1 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.[18] .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:

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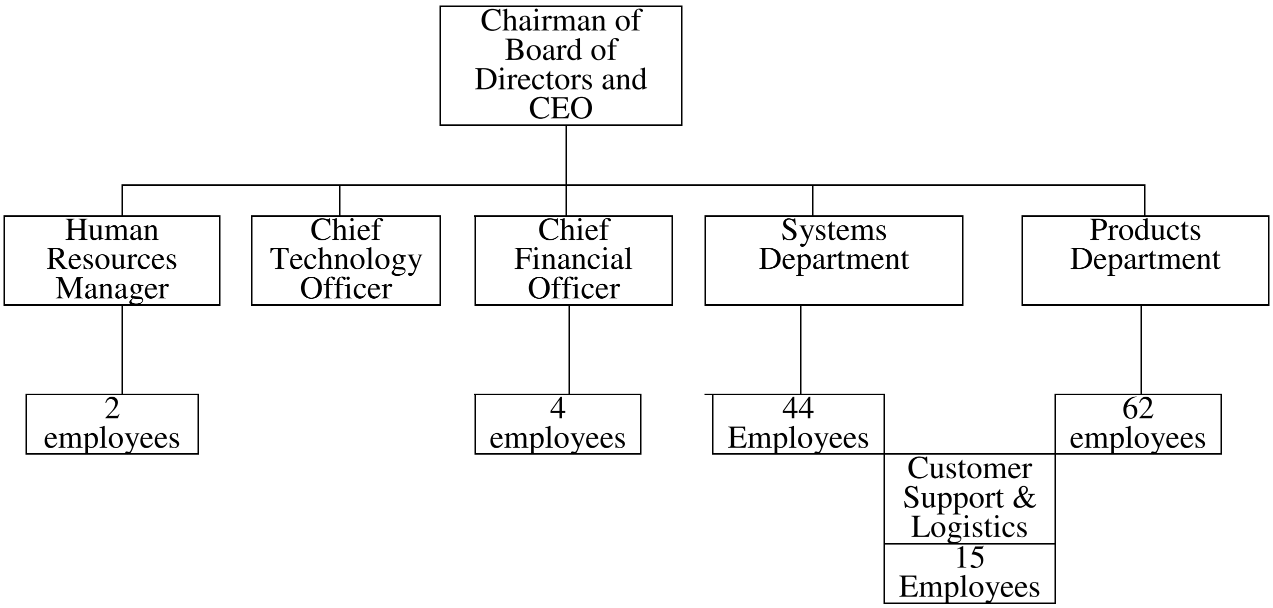
[17] Information concerning Company success in registering trademarks based on applications submitted is forward-looking information. The principal data which served as a basis for this information are: trademark research conducted by the Company and various checks conducted by Company professional advisors from time to time. The principal factors that are likely to prevent this information from being implemented are: the existence of prior, competing trademarks not identified by the Company and/or failure to identify the major attributes and criteria for conducting trademark research by the Company, as described above.

[18] As per decision of the General Meeting of Company shareholders dated April 13, 2004. See also Section 4.16.7 of this report regarding this matter.



1.14.2 Company employees and breakdown: In proximity to the date of this report the Company employs 128 employees in Israel; the subsidiary Unitronics Inc. employs 5 employees (without written personal employment contracts), and the subsidiary Unitronics House Management & Holdings (2003) Ltd. has no employees. Below is the breakdown of the Company's employees in Israel by area of activity as of the relevant dates:

	No. of Employees		
Area of Activity	**Close to date of this report**	**31.12.2006**	**31.12.2005**
Sales and Marketing	17	15	12
Research and Development	32	35	28
Administrative	11	12	11
Production, logistics and quality control	34	33	33
Integration and Support	34	37	29
Total	**128**	**132**	**113**

Employee breakdown by occupation

Occupation	No. of Employees Close to date of this report	31.12.2006	31.12.2005
Administration staff	11	11	10
Professional technicians	9	10	11
Software programmers (academic)	25	30	28
Engineers	19	19	10
Technicians, warehousemen and mechanical assembly staff	20	18	17
Academics (general)	16	15	12
Associate Engineers	28	29	25
Total	128	132	113

As of December 31, 2005 the subsidiary Unitronics Inc. employed 5 employees, and the subsidiary Unitronics House Management and Holdings (2003) Ltd. had no employees. As of December 31, 2005 the subsidiary Unitronics Inc. employed 3 employees, and the subsidiary Unitronics House Management and Holdings (2004) Ltd. had no employees.

The Company nearly doubled its workforce between the years 2004 - 2006 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 (as detailed in the table above) 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. The Company estimates that further recruiting is expected for development staff over coming quarters[19].

1.14.3 Terms of employment: Most of the Company's employees work on the basis of written personal employment agreements, incorporating customary obligations as to confidentiality, non-competition and non-disclosure of the Company's intellectual property. The Company's liabilities in respect of employee termination benefits are partly covered via contributions to senior employees insurance policies and pension funds. For the balance of Company liabilities for employment termination not covered by such payments, an appropriate provision is made in its financial statements.

19 The information with regard to the expected growth in staffing is forward-looking information. The main data constituting the basis for this information are the Company's development plans as set forth in section 1.9.18 in this report, the actual stages of development on the date of the report of the technology being developed at the Company and the need for continued implementation of the Company's research and development 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.

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 section 4.10.3 in this report). Except as stated in section 1.14.4a 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 the sole discretion of the board of directors.

1.14.4 Officeholders and officers of the Company:

(a) 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 (subject to all approvals required by law). 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 number granted to the most senior employee in the Company after Mr. Shani and Ms. Shani, each, subject to all approvals required by law including the approval of the Tel-Aviv Stock Exchange for listing the shares underlying the options for trade on such exchange as well as the approval of the general meeting of the Company's shareholders pursuant to Section 275 of the Israeli Companies 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 (without determination of a particular car category) 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 termination, if initiated by the Company. 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 resolved to approve, following approval of the Company's audit committee and board of directors, the payment of a special bonus to Mr.

Haim Shani 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 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 calculated for every year (non cumulatively) without regard to losses and shall 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 25, 2007 the Audit Committee and the Board of Directors approved payment of a bonus in the amount of NIS 155 thousand to Mr. Haim Shani in respect of the year 2006 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 division of the Overall Salary among the Company and Unitronics Inc. shall be effected in a manner whereby there will be no additional salary cost to the Company (on a consolidated basis with Unitronics Inc.) as compared to the salary cost to the Company without such division. Since the above division of Mr. Shani's salary allows diversion of part of the management resources to US markets in order to contribute to development and growth of Company business activity in such markets and also allows Mr. Haim Shani to be involved with and present at subsidiary activities in a manner that does not entail additional salary costs to the Company (compared to employment of any third party in the position above), the Audit Committee and the Board of Directors have determined that the amendment may only benefit the Company.

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 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. The Company estimates that it is not materially exposed to claims of existence of employment relations between the Company and the Chief Technology Officer (VP), based, among others, on a legal opinion obtained by the Company stating that chances are slim that any court of law would find that such employment relations exist. On February 1st, 2007 an amendment to the management agreement between the Company and the Chief Technology Officer (VP) was signed, to the effect that as of February 1, 2007 the extent of services provided by the Chief Technology Officer was reduced to 2 days per week, and the payment he is entitled to has therefore been reduced by half as of June 1, 2007. Below are details of amounts paid to the Chief Technology Officer as management fees (in NIS) for the indicated periods (no bonuses or other amounts were paid for said periods):

2006	**2005**
480,000	480,000

6.14.5 Company investment 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; the Company does not record a separate budget designated for such expenses.

1.15 Investments

The Company did not have as of the date of this report nor in the relevant reporting periods any investments in held companies, partnerships and ventures other than subsidiaries.

1.16 Financing

1.16.1 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 1.16.2 hereunder):

Credit Type	As of December 31, 2006		As of December 31, 2005		As of December 31, 2004	
	Credit amount NIS thousand	Interest	Credit amount NIS thousand	Interest	Credit amount NIS thousand	Interest
Short-term bank credit (current account)	-	-	1	9.25%	13	16.6%
Long-term bank credit (dollar denominated)	5,072	Libor+2.02%	5,524	Libor+2.02%	5,233	- 4.66% 4.9%
Long-term bank credit (NIS denominated)	-	-	-	-	6,275	6.70%
Long-term bank credit (Euro denominated)	5,650	Libor+2.02%	5,528	Libor+2.02%	-	-
CPI-linked leasing loans	366	5.7%-8.5%	517	6%-11.23%	668	6%-11.23%
Series 2 bonds (CPI linked)	29,859	CPI + 6.1%	-	-	-	-
Convertible bonds (Dollar-linked)	32,232	**Libor + 2.5%	33,908	**Libor + 2.5%	33,402	**Libor + 2.5%
Convertible bonds (Euro-linked)	3,709	***8.13%	4,548	4%	4,850	4%

** Six-month Libor, *** Starting in May 2006

As of the date of this report, 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 14,850 thousand, of which around NIS 7,400 thousand have been utilized as of December 31, 2006, primarily in respect of providing bank guarantees to secure the Company's liabilities under agreements in the systems sector as aforesaid. As of the date of this report, around NIS 7,400 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 Since December 31, 2006, the Company has not taken on any credit of a substantial amount. 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 December 31, 2007 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 €1,309,000 (which are around NIS 7,400,000) for providing a guarantee framework. Although as of the date of this report the Company is unaware of any specific limitation, 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.

1.16.2 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"**). 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 due to Bank Leumi as of December 31, 2006 for the New Credit Facility is about NIS 722,000.

1.16.3 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.

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. 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 2004 Prospectus (see Section 1.19.4 below) granted his consent to the above changes in the securities granted by the Company for securing repayment of the New Credit Facility.

1.17 Taxation

1.17.1 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; In March 2006 the Company received approval of execution of the approved plan in the alternative track, whereby it had complied with program terms except for marketing terms in 2004. The Company estimates that, by the time the benefit under the plan becomes relevant, it will also meet the terms of the marketing plan.

(c) The base year for the benefits period under the first plan is 1999 and for the second plan it is 2004. As of the date of the report, the benefits under either the first or the second plans have not yet been utilized.

Subject to the forgoing, as of the date of this report, the Company has met its liabilities to the Investment Center.

(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. Tax benefits will apply to increased sales beyond sales in the base year. Dividends paid within the benefit period out of funds attributed to the Approved Enterprise are subject to a reduced tax rate of 15%. In cases where a cash dividend is paid out of Company revenues arising from the approved plan for which the Company was entitled to a 0% tax rate, the Company shall be subject to a 25% corporate tax for dividends paid.

1.17.2 Measuring results for tax purposes according to Israeli Internal Revenue Ordinance (Adjustments for Inflation), 5745-1985 (in this section: "**the Adjustment 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.

1.17.3 The Industrial Promotion Law (Taxes), 5729-1969: The Company is an "industrial Company" as the term is defined 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 knowledge acquired from third parties. The subsidiary, Unitronics Inc., is subject to taxation under US tax laws and is therefore not eligible for benefits under The Industrial Promotion Law (Taxes), 5729-1969. The subsidiary is subject to a federal tax rate of 35%; the state tax imposed on the subsidiary (in the state of Massachusetts) is at 9.5%.

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

1.17.5 Tax Assessments: The Company has tax assessments which are considered final up to and including the tax year 2002. No final tax assessments have been issued yet for the subsidiaries Unitronics Management and Unitronics Inc. since the date of their incorporation.

1.17.6 Carry forward losses: The balance of the Company's carry forward losses for tax purposes as of December 31, 2006 amount to about NIS 25,000 thousand. No deferred taxes have been recognized for such losses.

1.18 Limitations on and supervision of Company activities

1.18.1 Business license: Company operations at Unitronics House in Airport City are subject to obtaining 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.

1.18.2 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.

1.18.3 Ministry of Defense: the Company is a recognized supplier to the Israeli Ministry of Defense for the manufacture, marketing and service provision in the automated warehouse sector, as of November 25, 2002.

1.19 Material agreements and cooperation agreements

1.19.1 The agreements listed above: The agreements listed in sections 1.4.2, 1.9.12.3, 1.10.9 and 1.14.4a above are material agreements of the Company. In addition, the agreements detailed in this section 1.19.1 are material agreements of the Company.

1.19.2 Acquisition of Company rights in Company Floors at Unitronics House and its financing: 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 1.12.1 above, under the financing terms specified in sections 1.16.2 and 1.16.3 above.

1.19.3 Underwriting agreement (2004 Prospectus): The Company entered into an underwriting agreement on May 11, 2004, regarding the securities offered by the Company under the 2004 prospectus. The underwriting agreement formalized the underwriters' obligations with respect to the distribution and underwriting of the securities and their commissions (and expense reimbursement), 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.

1.19.4 Bonds (Series 1): The Company issued under the 2004 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 (of not less than NIS4.59 per dollar) and bearing interest at a variable rate of LIBOR (for a period of 6 months) + 2.5% per annum. The bonds are convertible into Ordinary Shares on any trading day up to May 9, 2010 (inclusive), save from the 10th to the 23rd 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 2004 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 2004 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.

1.19.5 Bonds (Series 2): A series of NIS 34,000,000 par value bonds (Series 2), registered in the holder's name, of NIS 0.02 par value each of the Company, bearing interest at 6.1% per annum, linked (principal and interest) to the Consumer Price Index and payable (principal) in 5 equal annual installments on August 25 of each of the years 2009 to 2013 (inclusive). The bonds (Series 2) were issued under the 2006 Prospectus at 94% of the par value thereof.

On August 15, 2006 the Company contracted with Hermetic Trusts (1975) Ltd., as trustee for the bonds (Series 2) offered under the 2006 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.

1.19.6 Underwriting agreement (2006 Prospectus): The Company entered into an underwriting agreement on August 15, 2006, regarding the securities offered by the Company under the 2006 prospectus. The underwriting agreement formalized the underwriters' obligations with respect to the distribution and underwriting of the securities and their commissions (and expense reimbursement), which totaled approx. NIS 1,262 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; or due to the deficiency of any detail in the prospectus; 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 2006 prospectus, linked to the Consumer Price Index with the base CPI value being the CPI value known on the date of the underwriting agreement, provided the indemnified amount shall not exceed 25% of the Company's working capital at the time, based on the Company's most recent audited financial statements.

1.20 Legal Proceedings

1.20.1 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. Unitronics did not wish to continue the agreement with IMO, which the Company deems to be a competitor of the Company, and in October 2004 the Company delivered a notice of termination of the agreement. IMO made claims against termination of the agreement and several legal proceedings are currently on-going as a result of this disagreement as follows:

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 on February 26, 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 was scheduled to be heard in September 2006. Both sides requested that the hearing be postponed, intending to settle the issue by compromise, and the hearing was postponed as further detailed below.

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 (i.e. ruled as unworthy of judgment in an expeditious procedure) in a judgment from June 7, 2005 (IMO appealed the decision, and a hearing has been scheduled for September 2006, but in view of negotiations held by the parties for settlement as abovementioned, this hearing was postponed.)
- 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. On May 11, 2006 the court ruled on this matter and rejected IMO's above claim on its merits, and also awarded the Company expenses and legal fees (in a non-significant amounts). In view of the negotiations between the parties for settlement as abovementioned, the Company has not yet started collection proceedings.

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 submitted in Israel to the manager of the parent Company. In the absence of a defense statement, the court ruled against that manager on May 10, 2006 an in favor of Unitronics the full amount of its claim plus expenses and legal fees. As of the date of this report (and in the absence of an appeal), the decision against that manager became conclusive. Nevertheless, the Company decided to delay initiation of collection proceedings against that manager, pending a decision against IMO's parent Company and the remaining defendants. The claim was submitted in Israel on another date to the remaining defendants (the parent Company and its aforementioned owners), but they have yet to file a statement of defense.

Over recent months the parties conducted negotiations intended to settle the dispute by compromise. The compromise highlights: all parties renounce their claims, including IMO's claims against the new Unitronics distributor in France. In view of the parties' consent, the court in Israel decided on February 25 and March 1, 2007 to reject the above claims by the parties, with their consent. At the same time, requests have been filed with the court in France to discontinue proceedings before that court.

1.20.2 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 the Company and 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, but rather submitted a written response to the court, which decided to regard said letter as a response and statement of defense, and in light of this fact and despite the Company's request that the court rule in its favor (in the absence of defense) - decided to continue the proceedings. On June 2, 2006 a conference call hearing was held in the case, where it was decided that the case should progress to the discovery phase. On November 3, 2006 a further conference call hearing was held, where the defendant was required to submit documents and information in an orderly manner, no later than December 20. Towards the end of this time period, the defendant submitted a letter in German to the court. On December 22, 2006, the court ruled that court translation services are unavailable for civil proceedings, and that the defendant should translate his letter into English no later than January 22, 2007. On February 1, 2007, Unitronics filed its response whereby the documents presented by the defendant do not warrant the court's rejection of Unitronics' claims and as of the date of this report the parties await the court's ruling on continuation of the proceedings.

1.20.3 <u>Dispute with Robotic Parking</u>

On July 18, 2006, Unitronics contracted with the City of Hoboken, New Jersey in the USA to operate an automated parking system constructed a few years previously in the city and operated until that time by Robotic Parking Inc. (hereinafter: "**Robotic**"). This was for a period of several months, pending the issue of an official tender for upgrade and replacement of the system's software and control systems. Under the terms of the contract, the City committed to indemnify Unitronics for any damages caused by suits filed by Robotic.

On June 26, 2007 Robotic filed a claim against the City of Hoboken at the Federal Court in the State of New Jersey for breach of proprietary rights and breach of contract, and asked for an injunction against the City to prohibit Unitronics from operating the system. After several hearings, the judge issued the injunction against the City to discontinue Unitronics operations on site of the system. As per the court's decision, Unitronics' staff left the site in November 2006, and City staff operated the system.

In December 2006, Unitronics Inc. was awarded the tender by the City of Hoboken to repair the electrical and mechanical systems and to replace the software and control systems of the parking system, and commenced operations on site. Under the terms of the tender, the City committed to indemnify Unitronics Inc. for any damages caused by suits filed by Robotic.

On December 28, 2006 Robotic filed an amended claim against the City and its management, with Unitronics and Unitronics Inc. added as co-defendants, for patent infringement and infringement of intellectual property rights, breach of contract and slander.

The claim was submitted to Unitronics Inc. at its US offices on January 15, 2007. On January 26, 2007 Unitronics Inc. filed its response to the claim, within the framework of which it rejected Robotics' claims against it as well as raised certain claims against Robotics, among other, in relation to the termination of Robotics' patent and/or its inadmissibility and/or unenforceability. As of the date of this report Robotics has not yet responded to Unitronics Inc.'s counter claims.
Concurrently, Robotic tried to serve the claim on Unitronics as well, by serving it at the offices of Unitronics Inc., but Unitronics filed an objection with the court to this service. The court has yet to decide on this issue.
On March 23, 2007 the parties determined a joint discovery plan.

1.21 Subsidiaries

1.21.1 **Unitronics House Management and Maintenance (2003) Ltd.**

1.21.1.1 Overview

Unitronics House Management and Maintenance (2003) Ltd. ("**Unitronics Management**") was incorporated on April 29, 2003 as a fully-owned subsidiary of the Company.

Unitronics Management has been involved, since March 2004, primarily in providing maintenance and similar services in conjunction with use of Unitronics House (which is leased in part by Unitronics, and in part by interested parties in Unitronics as per section 1.12 in this report). As the resolution of the Company's Audit Committee and board of directors on May 2003, Unitronics Management provides maintenance services for the remainder of Unitronics House as well, which are not used or leased by the Company, provided that: (a) Unitronics Management will offer the same terms to all tenants at Unitronics House as those provided by other management companies in the area; and (b) the impact of provision of such services on Unitronics' profits, assets or liabilities will remain non-material. By decision of Unitronics' board of directors, any deviation from the above decisions will require approval by Unitronics' board of directors, as well as any other approval required by law.

Unitronics Management operates out of Unitronics House with no offices, assets or employees of its own. Unitronics Management operates via Unitronics' managers and staff, using Unitronics' assets with all building tenants paying for the Company's services based on charge rates which apply equally to all, and payment is pro-rated to the area used by each tenant. For details of services provided by Unitronics Management and fees charged by it (which are in non-material amounts for the Company), see sections 1.11 and 4.4 in this report.

1.21.1.2 Issued and paid-up capital, Company's share

As of the date of this report, the registered capital of Unitronics Management is NIS 100,000, divided into 100,000 Ordinary Shares with NIS 1 par value each, of which 1,000 shares have been issued and which are all held by the Company.

1.21.1.3 Cost of Unitronics Management shares to the Company and their recorded price on its books

As of the date of this report, the cost to the Company of Unitronics Management shares held by the Company is NIS 1,000.

1.21.1.4 Loans, credit, guarantees, investments in the Company

As of the date of this report, Unitronics Management has no debt to the Company, and the Company has issued no guarantees for Unitronics Management, except for current debt in the normal course of business and at non-material amounts.

Also, as of the date of this report, the Company has made no investments in Unitronics Management.

1.21.1.5 Holders of 25% or more of capital

As of the date of this report, and since its incorporation, Unitronics Management has been fully owned and controlled by the Company.

1.21.1.6 Management fees, interest, dividend and other payments from Unitronics Management

For the periods reported in this report, Unitronics Management has not paid and has not committed to pay the Company any management fees, interest or dividend payments other than reimbursement of expenses at non-material amounts.

1.21.1.7 Directors and senior office holders at Unitronics Management

The directors of Unitronics Management are: Messrs. Haim Shani, Bareket Shani and Zvi Livne, who are all directors of the Company as well.

Unitronics Management has no appointed CEO; Mr. Haim Shani, who is also the Company's CEO and chairman of the board of directors, serves as the acting senior office holder of Unitronics Management.

1.21.1.8 Profits / (losses) of Unitronics Management

As of December 31, 2006 the cumulative profit balance of Unitronics Management is about NIS 54,000.

1.21.2 **Unitronics Inc.**

1.21.2.1 Overview

Unitronics Inc. was incorporated on June 25, 2001 as a fully-owned subsidiary of the Company.

Unitronics Inc. is primarily engaged in marketing and distribution operations for the Company in the USA, operating a network of about 80 distributors across most of the United States. Unitronics Inc.'s offices are near Boston, MA in the USA. It has five employees, engaged primarily in coordination and support of marketing activities by Company distributors in the USA.

1.21.2.2 Issued and paid-up capital, Company's share

As of the date of this report, the registered capital of Unitronics Inc. is $10, divided into 1,000 shares of common stock with $0.01 par value each, all of which have been issued to and which are all held by the Company.

1.21.2.3 Cost of Unitronics Inc. shares to the Company and their recorded price on its books

As of the date of this report, the cost to the Company of Unitronics Inc. shares held by the Company is $10.

1.21.2.4 Loans, credit, guarantees, investments in the Company

The negative working capital of Unitronics Inc. is, as of December 31, 2006 about NIS 3,984 thousand. The current debit balance owed by Unitronics Inc. to the Company amounted to NIS 7,076 thousand as of December 31, 2006.

1.21.2.5 Holders of 25% or more of capital

As of the date of this report, and since its incorporation, Unitronics Inc. has been fully owned and controlled by the Company.

1.21.2.6 Management fees, interest, dividend and other payments from Unitronics Inc.

For the periods reported in this report, Unitronics Inc. has not paid and has not committed to pay the Company any management fees, interest or dividend payments.

1.21.2.7 Directors and senior office holders at Unitronics Inc.

Haim Shani serves as the only director and president of Unitronics Inc. For details on division of Mr. Shani's salary between the Company and Unitronics Inc., see section 4.7.2 in this report.

1.21.3 Profit (Loss) before and after tax, dividend, management fees and interest revenues from subsidiaries

	For the year ended December 31, 2006		**For the year ended December 31, 2005**		**For the year ended December 31, 2004**	
	Unitronics House Management and Maintenance (2003) Ltd.	Unitronics Inc.	Unitronics House Management and Maintenance (2003) Ltd.	Unitronics Inc.	Unitronics House Management and Maintenance (2003) Ltd.	Unitronics Inc.

In NIS thousand						
Profit (Loss) Before Tax	(25)	(777)	7	(1,239)	114	(741)
Profit (Loss) After Tax	(25)	(777)	5	(1,239)	74	(741)
Dividend	0	0	0	0	0	0
Management Fees	0	0	0	0	0	0
Interest Revenues	0	0	0	0	0	0

6.21.4 Inactive subsidiaries:

In addition, the Company holds 100% of the issued capital of Unitronics Industrie Automation GmbH, incorporated in Germany, as well as 30% of the issued capital of Unitronics S.A. (Proprietary) Limited, incorporated in South Africa. These companies have been inactive for a number of years and have no assets, employees nor liabilities (for details see section 1.2 above).

1.22 Discussion of risk factors

Below are risk factors which impact the Company (in both products and systems sectors) and Company management's estimate of the degree to which they impact Company business:

Type of Risk	Nature of Risk	Evaluation of extent of impact 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 sections 1.16 and 1.19.4 above.	High
	Currency exposure: The Company is exposed to changes in the exchange rates of the US$ and the €. See section 2.3	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. See section 2.3	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 1.9.7 and 1.9.14 above (with regard to the products sector) and in sections 1.10.7.2 and 1.10.12 (with regard to the systems sector).	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 1.9.10 above.	Medium
	Regulatory Requirements: The Company is exposed to risks arising from noncompliance of its products or services with specific regulatory requirements, as detailed in sections 1.9.22, 1.9.23 and 1.10.19 above.	Medium
	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 1.9.22 and 1.9.23 above.	Low
	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 1.9.20 and 1.9.22 above.	Low
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 1.9.12.3 and 1.10.9 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 1.14.4A above.	Medium

	Leveraging: The Company is liable for repayment of loans due, among others, to issuance of bonds (Series 1) under the 2004 Prospectus and for a loan for acquisition of Unitronics floors (as described in section 1.16.2). After issuance of the bonds (Series 2) under the 2006 Prospectus, Company liabilities for repayment of external loans have increased to a total of about NIS 77 million. Should the Company fail in its investments policy of the above loan proceeds, there is a concern that the Company may not be able to comply with repayment terms of the aforementioned loans. Furthermore, there is no assurance that the use of loan proceeds (for development of Company business) will produce the desired results and will allow to comply with repayment terms of the loans in the future.	Medium
	Absence of registered intellectual property rights: The Company is exposed to risks arising from the absence of registered intellectual property rights, as detailed in section 1.13 above.	Low
	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 and different, adversely affecting their negotiability.	Low
	Absence of 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 of quarterly income statements (Reg. 10A)

	NIS in thousands				
	1-3/2006	4-6/2006	7-9/2006	10-12/2006	1-12/2006
Revenues	20,740	22,927	23,734	27,380	94,781
Cost of Sales	12,803	14,771	15,903	18,699	62,176
Gross Profit	7,937	8,156	7,831	8,681	32,605
R&D Expenses, Net	1,949	2,074	2,093	2,405	8,521
Sales and Marketing Expenses	2,744	2,847	2,593	2,756	10,970
General and Administrative Expenses	1,516	1,487	1,499	1,600	6,102
Ordinary Operating Profit	1,698	1,748	1,646	1,920	7,012
Financial Expenses	1,070	1,053	1,236	1,468	4,827
Other Revenues	-	33	-	(10)	23
Profit (loss) before taxes	628	728	410	442	2,208
Income Taxes (Tax Benefit)	27	63	(3)	(2)	85
Periodic profit (loss)	601	665	413	444	2,123

2.2 Explanations to the Financial Statements (Reg. 10)

2.2.1 General

The Company engages, via the Products Department, in the design, development, manufacture, marketing and sale of industrial automation products, mainly PLCs, and via the Systems Department, in design, construction and maintenance services within the framework of projects for automation, computerization and integration of computerized production and/or logistics systems, mainly automated warehouses and distribution centers. The Company's PLCs are being distributed through over one hundred and forty distributors (and a wholly-owned subsidiary) in approximately fifty countries throughout Europe, Asia, America and Africa, and the services of the Systems Department were provided until recently mainly to customers in Israel, and in a few cases, also outside of Israel. Starting last year and 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 the USA), with the goal of developing additional markets for the services of the Systems Department.

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

Events included in the periodic report for 2005

The following events occurred in the report period and were published in the Company's periodic report for 2005 dated March 27, 2006 (hereinafter: "**2005 Annual Report**") and have not changed to the date of the current report:

- Market Making Agreement with "Harel", see section 1.4.9 of the 2005 Annual Report.
- CEO's annual bonus and division of the CEO salary between the Company and its subsidiary, see section 4.7.2 of the 2005 Annual Report.

Main Agreements for the Supply of Automated Warehouses and Other Systems

In 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 or strategic significance, being:

- An agreement dated May 24, 2006 with Poliba Ltd., a company engaged in production, import and marketing of raw materials for the baking industry, to design, supply and install an automated logistics system in the Ramle Industrial Zone, for a total cumulative amount (partially linked to the Euro) estimated as of the agreement date at about NIS 7 million plus VAT, payable in installments based on milestones along project execution.

- An agreement dated June 5, 2006 with Tnuva Cooperative Agricultural Produce Marketing Ltd. for design, supply, setup and installation of an automated logistics system for the Beer Tuvia regional distribution center, for a total cumulative amount (linked to the Euro) estimated as of the agreement date at about NIS 21 million plus VAT, payable in installments based on milestones along project execution

- The Award of a tender to repair and service an automated parking facility in Hoboken, New Jersey. According to an agreement signed in December 2006, between the subsidiary Unitronics Inc. and the City of Hoboken, NJ in the USA, the Company undertook to repair and upgrade an automated parking system operating in the city by repairing mechanical and electrical systems and replacing software and control systems for a total amount of approximately $2 million (approximately NIS 8.4 million). According to terms of the agreement, payment is due in full upon completion of the project (for details concerning legal proceedings on this matter, see section 1.20.3 above).

Exemption and Indemnification of Office Holders

Pursuant to resolutions of the Audit Committee and the Company's Board of Directors dated March 27, 2006 the General Meeting of Company Share Holders on May 9, 2006 adopted several resolutions related to exemption and indemnification of Office Holders (for details see section 4.16.2 below as well as immediate report on outcome of the General Meeting, dated May 9, 2006).

Issuance and listing of securities

On August 16, 2006 the Company published a prospectus (hereinafter: "**2006 Prospectus**") under which the Company offered to the public in Israel units including bonds (Series 2) and option instruments (Series 2) convertible into Ordinary Shares of the Company, comprising of 100,000 units by means of bidding for the unit price. The immediate gross proceeds obtained by the Company for the securities offered under the 2006 Prospectus was approximately NIS 31,960,000. (For details see section 1.4.10 above).

Approval for Company Share Buy-Back

Pursuant to purchases made by the Company from time to time starting on August 18, 2005 and through March 27, 2006 of Ordinary Shares of the Company, during normal trading on the stock exchange, and in view of the relatively low prices of Company shares on the stock exchange, and as a show of confidence in the Company and its operation, the Company's Board of Directors approved on June 22, 2006 a further purchase of Company Ordinary Shares (beyond the total amount of 132,425 shares purchased by the Company prior to that date for a total amount of approximately NIS 641 thousand) for a total additional amount of up to NIS 2,000,000 at a price per share not to exceed NIS 6.50 (For details see section 1.4.7 above).

2.2.3 Financial Status

Assets

The total assets according to the Company's consolidated balance sheet of December 31, 2006, amounted to approximately NIS 123,707 thousand as compared to NIS 97,739 thousand as of December 31, 2005. This increase is mostly due to the growth in cash, cash equivalents 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 51,205 thousand as of December 31, 2005, to approximately NIS 70,296 thousand as of December 31, 2006. This growth is mostly due to capital raised by bonds (Series 2) issued by the Company under the 2006 Prospectus.

In the Accounts Receivable - Trade item, growth was recorded from approximately NIS 10,103 thousand as of December 31, 2005 to approximately NIS 15,680 thousand as of December 31, 2006. Most of the growth was due to increased Company revenues as set forth below.

The Inventory item recorded a 45% growth, and amounted to NIS 13,663 thousand as of December 31, 2006 - compared to NIS 9,451 thousand as of December 31, 2005, primarily due to increase in revenues during the reported period. The Company believes that this improvement is mainly attributable to a consistent 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.

The Fixed Assets, Net balance as of December 31, 2006 amounted to approximately NIS 22,576 thousand as compared to NIS 22,471 thousand as of December 31, 2005. 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, 2006 amounted to approximately NIS 193 thousand, as compared to NIS 3,279 thousand as of December 31, 2005. Most of the change is due to reallocation of deferred issuance expenses associated with convertible bonds (issued to the public under the Company's prospectus dated May 2004) to the Convertible Bonds item under long-term liabilities, in accordance with provisions of Accounting Standard 22 of the Israel Accounting Standards Board, which applies to financial statements for periods starting on January 1, 2006.

Liabilities

Total short-term credit amounted to approximately NIS 11,720 thousand as of December 31, 2006, as compared to NIS 1,103 thousand as of December 31, 2005. Most of the growth in this item over the previous period is due to current maturity of convertible bonds (Series 1) maturing starting in May 2007; current maturities of Euro-denominated convertible bonds maturing from May 2006 to September 2008; as well as current maturities of long term loans.

The Accounts Payable - Trade item, recorded a decrease, amounting to approximately NIS 12,112 thousand as of December 31, 2006, as compared to NIS 13,146 thousand as of December 31, 2005. This decrease is mainly due to decrease in accounts payable for the products sector in the fourth quarter of the reported year.

The Accounts Payable - Other item amounted to approximately NIS 11,664 thousand as of December 31, 2006, as compared to NIS 12,305 thousand as of December 31, 2005. The decrease in this item is mostly due to decrease in deferred revenues and in advance payments from customers, set-off an increase in the Deferred Expenses item.

The Long-Term Liabilities item amounted to approximately NIS 66,796 thousand as of December 31, 2006, as compared to NIS 50,520 thousand as of December 31, 2005. Most of the change is due to issuance of bonds (Series 2) under the 2006 Prospectus, after setting-off current maturity of convertible bonds (Series 1) which commence maturing in May 2007; as well as from the classification of deferred issuance expenses associated with convertible bonds to the Convertible Bonds item, as set forth above.

The Company's working capital amounted to approximately NIS 65,123 thousand as of December 31, 2006, as compared to NIS 45,234 thousand as of December 31, 2005. This increase is primarily due to increase in the Cash and Cash Equivalents item, due to capital raised by issuing bonds (Series 2) under the 2006 Prospectus. For further details with regard to the working capital, refer to Chapter A (section 1.24) above.

The Company’s shareholders equity amounted to approx. NIS 21,435 thousand as of December 31, 2006, as compared to NIS 20,665 thousand as of December 31, 2005. The increase in this item is mainly due to the Company’s net profit after off-off purchasing of Company’s Ordinary Shares during trading on the Tel Aviv Stock Exchange (for details on share buy-back see section 1.4.7 above).

2.2.3.1 Analysis of Financial Situation By Sectors of Operation

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, 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 20,125 thousand as of December 31, 2006, as compared to approximately NIS 14,450 thousand as of December 31, 2005. Most of the increase in this item is due to increase in the Inventory item as set forth above. .

The total liabilities in the products sector amounted to approximately NIS 4,867 thousand as of December 31, 2006, as compared to NIS 8,708 thousand as of December 31, 2005. The decrease in this item is mostly due to decrease in the Unearned Revenues item and decrease in the Accounts Payable - Trade item for this sector.

The Systems Sector

The total assets used in the systems sector amounted to approximately NIS 11,721 thousand as of December 31, 2006, as compared to approximately NIS 7,186 thousand as of December 31, 2005. Most of the increase in this item is due to increase in the Accounts Receivable item in this sector. .

The total liabilities in the systems sector amounted to approximately NIS 15,580 thousand as of December 31, 2006, as compared to NIS 14,424 thousand as of December 31, 2005. The increase in this item is mostly due to increase in the Expenses Payable item and increase in the Accounts Payable - Trade set-off decrease in the Customer Advance Payments item for this sector.

Assets and liabilities not attributed to a specific sector of operations

The total assets not attributed to any particular sector of operations amounted to approximately NIS 91,692 thousand as of December 31, 2006, as compared to NIS 75,860 thousand as of December 31, 2005. The increase in this item is mostly due to issuance of bonds (Series 2) as set forth above.

The total liabilities not attributed to any particular sector of operations amounted to approximately NIS 81,610 thousand as of December 31, 2006, as compared to NIS 53,723 thousand as of December 31, 2005. The increase in this item is mostly due to issuance of bonds (Series 2) as set forth above.

2.2.4 Operating Results

Revenues

Revenues for the year ended December 31, 2006, amounted to approximately NIS 94,781 thousand, as compared to approximately NIS 80,774 thousand as of December 31, 2005 (an increase of approximately 17%) and as compared to NIS 61,771 thousand for 2004 (an increase of approximately 53%). The continued increase in revenues during the recent twenty-one 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.

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 62,176 thousand for the year ended December 31, 2006 (constituting approximately 66% of revenues in said period), as compared to approximately NIS 55,888 thousand for the year ended December 31, 2005 (constituting approximately 69% of revenues in said period) and as compared to approximately NIS 40,428 thousand for the year ended December 31, 2004 (approximately 65% of revenues in said 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 gross profit amounted to approximately NIS 32,605 thousand for the year ended December 31, 2006 (approximately 34% of revenues in said period), as compared to approximately NIS 24,886 thousand for the year ended December 31, 2005 (approximately 31% of revenues in said period) and as compared to approximately NIS 21,343 thousand for the year ended December 31, 2004 (approximately 35% of revenues in said period). The increase in sums in this item is attributable to the growth in the Company's revenues, as explained above. The increase in the gross profit rate for the reported period over the preceding period is mainly attributable to the increase in the portion of revenues from the Products sector out of the total Company revenues - a sector whose gross profit is higher than the gross profit of the systems sector. For further details with regard to the gross profit in each particular sector of operation severally, see the analysis of the business results by sectors of operation, 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, 2006, amounted to approximately NIS 8,521 thousand (constituting approximately 9% of the revenues), as compared to NIS 5,753 thousand for the year ended December 31, 2005 (constituting approximately 7% of the revenues) and as compared to approximately NIS 4,292 thousand for the year ended December 31, 2004 (constituting approximately 7% 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].

Sales and Marketing Expenses

Sales and marketing expenses amounted to approximately NIS 10,970 thousand for the year ended December 31, 2006 (approximately 12% of revenues), as compared to approximately NIS 9,659 thousand for the year ended December 31, 2005 (approximately 12% of revenues) and as compared to approximately NIS 7,822 thousand for the year ended December 31, 2004 (approximately 13% of revenues).

The increase in sales and marketing expenses for the reported period reflect its adjustment to increase in revenues, required to support continued growth as per Company policy on this matter, and was mainly caused by recruiting of additional staff for the marketing teams, participation in international tradeshows and other marketing activities in Israel and overseas. For further details with regard to marketing and distribution activities, refer to Chapter A (section 1.14) above. The Company anticipates continued growth in this item over the coming quarters[2].

General and Administrative Expenses

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.

2 The information with regard to the expected growth in the Sales and Marketing Expenses item is forward-looking information. The main data constituting the basis for this information are the Company's marketing activities, including planned 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).

General and administrative expenses amounted to approximately NIS 6,102 thousand for the year ended December 31, 2006 (approximately 6% of revenues), as compared to approximately NIS 6,302 thousand for the year ended December 31, 2005 (approximately 6% of revenues) and as compared to approximately NIS 4,083 thousand for the year ended December 31, 2004 (approximately 7% of revenues).

General and administrative expenses for the reported period reflect expenses required to support continued growth and to manage expanding the Company's activities, and mostly comprise of current expenses in professional consulting and legal services, expenses associated with listing Company securities for trading on the Tel Aviv Stock Exchange as well as payment of a special bonus to the Company's CEO during the year (as set forth above).

Operating Profit

The total operating profit for the year ended December 31, 2006, amounted to approximately NIS 7,012 thousand (approximately 7.4% of revenues), an increase as compared to the operating profit of approximately NIS 3,172 thousand for the year ended December 31, 2005 (approximately 3.9% of revenues) and compared to the total operating profit of approximately NIS 5,096 thousand for the year ended December 31, 2004 (approximately 8.2% of revenues).

The increase in operating profit in the reported period compared to 2005, is mainly attributable to an increase in gross profit in the reported period after off-off 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.

Financing Expenses

The financing expenses for the year ended December 31, 2006, amounted to approximately NIS 4,822 thousand, as compared to NIS 2,511 thousand for the year ended December 31, 2005, and as compared to approximately NIS 2,193 thousand for the year ended December 31, 2004.

Most of the growth in this item in comparison to the previous period is due to increase in interest component of Company bonds, primarily Series 2 bonds, issued under the August 2006 Prospectus; and to decrease in interest revenues from negotiable securities after off-off a decrease in cost of financing associated with long-term credit, due to decrease in the exchange rates of the Dollar and Euro against the NIS in the reported period.

As of May 2004, the Company's exposure to changes in the exchange rate of the NIS 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.

As of August 2006 the Company's exposure to changes in the CPI has increased, due to issuance of bonds (Series 2) under the Israeli Prospectus - which are linked to the CPI. In addition to this exposure to the fluctuations in the CPI, 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, 2006, amounting to approximately NIS 2,128 thousand, as compared to a profit of approximately NIS 624 thousand the year ended December 31, 2005, and as compared to a profit of approximately NIS 2,879 thousand for the year ended December 31, 2004.

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 4 distributors to approximately 140 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, an increase was recorded in the reported net profit, mainly attributable to the growth in revenues from the product sector related to the revenues from the system sector, after off-off 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 financing expenses as set forth above.

2.2.4.1 Analysis of Business Results by Sectors of Operation

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 profit margins of 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, 2006, constituted approximately 57% of the Company's total revenues for that year, whereas the revenues from systems for the same period constituted approximately 43% of the total revenues (an additional 1 percent results from other revenues). For the year ended December 31, 2005, the revenues from products constituted approximately 46% of the Company's total revenues for that year, whereas revenues from systems for the same period constituted approximately 53% of the total 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. The Company believes that the decrease in the systems sector share of revenues out of total Company revenues for the reported period is mainly due to decrease in systems sector revenues, as set forth below.

The Products Sector

The total revenues from the Products sector for the year ended December 31, 2006, amounted to approximately NIS 53,711 thousand, as compared to approximately NIS 37,201 thousand for the year ended December 31, 2005, and as compared to approximately NIS 29,883 thousand for the year ended December 31, 2004. The Company estimates that the 44% increase in the reported period is due primarily to increased market recognition of the Company's products and to its international marketing efforts.

The gross profit margin in the products sector for the year ended December 31, 2006, amounted to approximately 49%, as compared to approximately 50% for the year ended December 31, 2005, and as compared to approximately 51% for the year ended December 31, 2004. 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.

Results of the products sector for the year ended December 31, 2006, amounted to approximately NIS 17,427 thousand, as compared to approximately NIS 10,498 thousand for the year ended December 31, 2005, and as compared to approximately NIS 9,241 thousand for the year ended December 31, 2004. The Company estimates that the 66% increase in the reported period is due primarily to increased revenues in this sector, after off-off the decrease in the gross profit margin in this sector, as set forth above, as well as increase in other expense items attributed to this sector.

The Systems Sector

The total revenues from the systems sector for the year ended December 31, 2006, amounted to approximately NIS 40,370 thousand, as compared to approximately NIS 42,862 thousand for the year ended December 31, 2005, and as compared to approximately NIS 31,263 thousand for the year ended December 31, 2004. The Company estimates that the 6% decrease in the reported period over the previous period is due primarily to pace of progression made in construction of logistics systems by the Company's Systems Department (during the normal course of the Company's business) and to a decrease in total contract volume doe delivery and installation of automated warehouses signed during the reported period.

The gross profit margin in the systems sector for the year ended December 31, 2006, amounted to approximately 15%, as compared to 14% for the year ended December 31, 2005, and as compared to approximately 19% for the year ended

December 31, 2004.

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.

Results of the systems sector for the year ended December 31, 2006, amounted to approximately NIS 4,249 thousand, as compared to approximately NIS 4,591 thousand for the year ended December 31, 2005, and as compared to approximately NIS 4,934 thousand for the year ended December 31, 2004. The Company estimates that the 6% decrease in the reported period is due primarily to decreased revenues in this sector, , as set forth above, as well as an increase in other expense items attributed to this sector.

2.2.5 Liquidity and Financing Sources

The balance of cash, cash equivalents and marketable securities of the Company for the year ended December 31, 2006, amounted to approximately NIS 70,296 thousand, as compared to NIS 51,205 thousand for year ended December 31, 2005. This increase was mainly attributable to the total positive cash flow from investment and financing operations set-off cash flow from current operations, as explained in detail below.

The cash flow from current operations for the year ended December 31, 2006, was a negative cash flow amounting to approximately NIS 6,444 thousand, as compared to a positive cash flow of approximately NIS 3,077 thousand for the year ended December 31, 2005, and as compared to a positive cash flow, amounting to approximately NIS 11,666 thousand for the year ended December 31, 2004. This negative cash flow is mostly due to increase in accounts receivable and inventory items, after off-off net profit recorded for the period.

The cash flow from investment operations for the year ended December 31, 2006, was a positive cash flow amounting to approximately NIS 3,932 thousand, as compared to a negative cash flow of approximately NIS 6,917 thousand for the year ended December 31, 2005, and as compared to a negative cash flow, amounting to approximately NIS 30,833 thousand for the year ended December 31, 2004. Most of the increase in this item for the reported period results from liquidation of negotiable securities and restricted cash set-off acquisition of fixed assets in the period.

The cash flow from financing operations for the year ended December 31, 2006, was a positive cash flow amounting to approximately NIS 26,876 thousand, as compared to a negative cash flow of approximately NIS 1,565 thousand for the year ended December 31, 2005, and as compared to a positive cash flow, amounting to approximately NIS 34,084 thousand for the year ended December 31, 2004. This positive cash flow for the reported period is mostly due to issuance of bonds under the 2006 Prospectus, to loan repayment and to Company share buy-back.

As of December 31, 2006, the Company had credit lines for current operations amounting to approximately NIS 14.9 million. As of December 31, 2006, a total sum of approximately NIS 7.4 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 Qualitative Report on Exposure to Market Risks and Their Management

The Company's CEO, Mr. Haim Shani, and its CFO, Mr. Yair Itzkovich, are the individuals in the Company responsible for the management of market risks. For details see sections 4.11a and 4.12b below, respectively. The CFO is responsible for collecting information according to the risks listed below, for processing it and presenting it to the CEO each quarter. The CEO is responsible for analyzing the information and drawing actionable conclusions during quarterly meetings with the CFO.

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 the2004 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 NIS.

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 NIS 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.

Exposure to Consumer Price Index Fluctuations

As per section 2.2.2 above, in the reported period the Company issued bonds (Series 2) under the 2006 Prospectus. These bonds are linked to the consumer price index. Therefore, as of August 2006 the Company’s exposure to CPI fluctuations has increased. Developments in Israel’s economy, including devaluation and inflation, could give rise to fluctuations in the Consumer Price Index and consequently, could affect the Company's financing revenues / expenses.

Risks Related to Negotiable Securities

Part of the Company's financial means is invested in negotiable 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 financing 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 (Series 1) and bonds (Series 2) which the Company issued pursuant to the 2004 and 2006 Prospectuses and other credit facilities bearing various interest rates and exposed to potential changes in the Prime and/or Libor interest rates.

Company Policy on Market Risk Management

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. In the systems sector, the Company usually matches the payment terms (date / currency) from different customers to those of the subcontractors.

Company policy on investment allocation is guided by the Company’s intention to reduce its exposure to Dollar-denominated liabilities (primarily principal and interest payments for Dollar-denominated convertible bonds (Series 1)).

To this end the Company reviewed, in consultation with capital market professionals, shortly following the 2004 Prospectus (and after obtaining the issuance proceeds) several investment alternatives, including: use of Dollar-denominated deposits, use of derivatives and other financial instruments and use of NIS-denominated investments.

The Company estimates that, since its liabilities for the convertible bonds (Series 1) issued under the 2004 Prospectus are linked to the Dollar exchange rate but no lower than the base rate of NIS 4.59 per Dollar, use of Dollar-denominated deposits alone would not ensure Company liabilities with regard to convertible bonds (Series 1), especially if the Dollar exchange rate should fall below the aforementioned base rate.

The use of derivatives and other financial instruments to ensure against changes to the Dollar exchange rate in order to meet Company liabilities for its convertible bonds (Series 1) was deemed by the Company to be financially unattractive due to high costs associated with it.

In view of the above, and the fact that most Company revenues are in foreign currency, the Company elected after raising capital in 2004 to allocate 60% of its investments to Dollar-denominated investments (thereby achieving relative protection of its exposure to an increase in the Dollar exchange rate) and 40% of its investments to NIS-denominated investments, which at the time yielded better returns, thereby achieving relative protection against a decline in the Dollar exchange rate below the base rate.

Following the capital raising in August 2006 and issuance of CPI-linked bonds (Series 2), the Company’s Investment Committee resolved to invest the proceeds of such capital raising such that 35% of investments would be allocated to Dollar-denominated investments (thereby achieving relative protection against exposure to increase in the Dollar exchange rate) and 65% of investments would be allocated to CPI-linked NIS-denominated investments (thereby achieving relative protection against exposure to CPI increases).

Beyond the activity by the Company’s Investment Committee as set forth above, management of market risks and protection employed during the reported year are presented quarterly to the board of directors as part of discussions of periodic reports.

2.4 Disclosure of Auditor Salary (Directive of the Securities Authority pursuant to section 36(a) (b) of the Law)

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:

CPA	Company to which service is rendered	Type of Service	2006 NIS in thousands	2005 NIS in thousands
Amit Halfon, CPA, Ramat Gan, Israel	Unitronics (1989) (R"G) Ltd.	Audit services, audit-related services and tax	381	359

		services		
Amit Halfon, CPA, Ramat Gan, Israel	Unitronics (1989) (R"G) Ltd.	Prospectus processing	154	-
Clarke, Snow & Riley LLP Quincy, MA, USA	Unitronics Inc.	Audit services, audit-related services and tax services	142	210

2.5 Consolidated Linkage-Basis Report as of December 31, 2006

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 thousand				
Assets							
Cash and cash equivalents	27,431	-	8,300	4,175	-	-	39,906
Negotiable Securities	6,687	15,794	-	9,909	-	-	30,930
Accounts Receivable	9,914	-	1,881	3,880	-	-	15,675
Accounts Payable	199	515	-	-	-	52	766
Inventory	-	-	-	-	-	13,663	13,663
Work-in-progress inventory	-	-	-	-	-	194	164
Long-term deposits	-	-	-	-	-	339	339
Fixed assets, Net	-	-	-	-	-	22,576	22,576
Other assets and deferred expenses, Net	-	-	-	-	-	193	193
Total Assets	42,231	16,309	10,181	17,964		31,017	123,702
Liabilities							
Short term credit and current maturities of long-term loans	-	136	2,373	9,211	-	-	11,720
Accounts payable - trade	8,893	-	2,962	246	11	-	12,112
Accounts payable - other	10,670	-	-	756	-	218	11,664
Long-term loans	-	230	5,137	4,611	-	-	9,978
Convertible bonds	-	-	1,849	23,482	-	-	25,331
Bonds		29,859	-	-	-	-	29,859
Accrued severance pay, net	1,628	-	-	-	-	-	1,628
Total liabilities	21,191	30,225	12,321	38,306	11	218	102,272
Balance (Net)	21,040	(13,916)	(2,140)	(20,342)	(11)	36,799	21,430

2.5.1 Sensitivity Tests of Financial Instruments as of December 31, 2006

The Company conducted, as of the balance sheet date, 4 sensitivity tests to changes within a range of 5% and 10% in market factors.
The market factor tests were based on the model specified.

1) Table listing changes to fair value of financial instruments sensitive to changes in Dollar exchange rate

	Profit (loss) due to change, NIS in thousands		NIS in thousands	Profit (loss) due to change, NIS in thousands	
	10%+ NIS 4.648 per $	5%+ NIS 4.436 per $	Fair Value NIS 4.225 per $	-5% NIS 4.014 per $	-10% NIS 3.803 per $
Cash and cash equivalents	418	209	4,175	-209	-418
Negotiable Securities	991	495	9,909	-495	-991
Accounts Receivable	388	194	3,880	-194	-388
Short term credit and current maturities of long-term liabilities (**)	-156	-23	-9,211	23	46
Accounts payable - trade	-25	-12	-246	12	25
Accounts payable - other	-76	-38	-756	38	76
Long-term loans	-461	-231	-4,611	231	461
Convertible bonds (**)	-294	-	-23,482	-	-
Total	785	594	-20,342	-594	-1,189

* For current maturities of convertible bonds issued at minimal exchange rate of NIS 4.59 per $
** The convertible bonds were issued at minimal exchange rate of NIS 4.59 per $

2) Table listing changes to fair value of financial instruments sensitive to changes in Euro exchange rate

	Profit (loss) due to change, NIS in thousand		NIS in thousands	Profit (loss) due to change, NIS in thousand	
	10%+ NIS 6.12 per €	5%+ NIS 5.843 per €	Fair Value NIS 5.564 per €	-5% NIS 5.286 per €	-10% NIS 5.008 per €
Cash and cash equivalents	830	415	8,300	-415	-830
Accounts Receivable	188	94	1,881	-94	-188
Short term credit and current maturities of long-term liabilities	-237	-119	-2,373	119	237
Accounts payable - trade	-296	-148	-2,962	148	296
Long-term loans	-514	-257	-5,137	257	514
Convertible bonds	-185	-92	-1,849	92	185
Total	-214	-107	-2,140	107	214

3) Table listing changes to fair value of financial instruments sensitive to changes in Consumer Price Index

	Profit (loss) due to change, NIS in thousand		NIS in thousands	Profit (loss) due to change, NIS in thousand	
	10%+ 203.36 points	5%+ 194.11 points	Fair Value 184.87 points	-5% 175.63 points	-10% 166.38 points
Negotiable Securities	1,579	790	15,794	-790	-1,579
Accounts Payable	52	26	515	-26	-52
Short term credit and current maturities of long-term liabilities	-14	-7	-136	7	14
Long-term loans	-23	-12	-230	12	23
Bonds (***)	-2,422	-955	-29,859	-	-
Total	-828	-158	-13,916	-797	-1,594

*** Bonds issued based on base CPI of 188.1 points (1993 Average)

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

	Profit (loss) due to change, NIS in thousands		NIS thousand	Profit (loss) due to change, NIS in thousands	
	10%+	5%+	Fair Value	-5%	-10%
Local - Government	1,318	659	13,180	-659	-1318
Local - Corporate	1,155	577	11,551	-577	-1,155
Overseas - Corporate	566	283	5,659	-283	-566
Total	3,039	1,519	30,390	-1519	-3,039

2.6 Details of Company's internal auditor

(a) The Company's internal auditor is CPA Eyal Horovitz (jurist) who has held this position since June 2000. His appointment was ratified in Audit Committee and Board of Directors meetings on June 18, 2000. To the best of the Company's knowledge, CPA Horovitz complies with provisions of Section 146(b) of the Companies Ordinance and provisions of Section 8 of the Internal Audit Law, 5752 - 1992 (hereinafter: "**the Internal Audit Law**"). 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 since 1991. The internal auditor was appointed after the Audit Committee and the Board of Directors have reviewed his experience and track record in internal auditing of other public companies considering, among others, the company type, size, as well as the scope and complexity of its operations.
The Company's internal auditor has no business or other ties to the Company or its controlling shareholder, nor to affiliated entities - to the best of the Company's knowledge.

(b) CPA Horovitz is not an employee of the Company and provides internal auditing services to the Company as an external entity via **Oren Horovitz *et al* CPAs**, of 12 HaHilazon Street, Ramat Gan (Company ID 557684875) which has an internal auditing department with and its employees have skills various disciplines.

(c) The organizational authority over the Company's internal auditor is the Chairman of the Board of Directors of the Company, 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.

(d) <u>The annual and multi-annual audit plan and considerations in its determination:</u> The considerations in determining the current and multi-annual 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. The Audit Committee and Board of Directors discuss and approve the annual plan and the issues to be reviewed by the internal auditor, and these issues are reviewed by the internal auditor as part of his annual work. The internal auditor is authorized to exercise his discretion as to deviations from the specified plans in order to review data randomly uncovered by him during execution of the annual work plan. Should the internal auditor decide to conduct a comprehensive review of an issue not included on the list of issues approved by the Audit Committee for the annual work plan, the auditor would recommend that the Audit Committee Chairman amend the plan, and the latter would bring the issue for discussion and confirmation during Audit Committee meetings.

In the reported period, the Company executed material transactions not reviewed by the internal auditor. For details see section 4.16 below. Nevertheless, the internal auditor did refer, in the internal audit report for 2004, to issues of salary, benefits and transactions with interested parties in the Company.

(e) The audit plan refers from time to time, as needed, to Company overseas operations as well. The internal auditor made reference, in the internal audit report for 2003, to several aspects of Unitronics Inc.s' operations (a fully-owned subsidiary of the Company engaged mainly in coordination of marketing and distribution operations of the Company in the USA - for details see section 1.21.2 above) - including monitoring of implementation of the internal auditor's recommendations on these issues. Nevertheless, the Company's overseas operations have yet to be fully reviewed by the internal auditor, and in any case all Company documents regarding its operations, and/or those of the subsidiary overseas, are fully available to the internal auditor in Israel.

The audit plan also refers from time to time, as needed, to operations of Company subsidiaries in Israel. The Company's internal audit report for 2004 made reference to several aspects of operations of Unitronics House Management and Maintenance (2003) Ltd. - a fully-owned subsidiary of the Company (for details see section 1.21.1 above).

(f) The scope of employment of the internal auditor and the team of employees reporting to him in the years 2004, 2005 and 2006 in internal auditing for the Company was approximately 150 hours on average each year. The Board of Directors believes that this scope is appropriate for the operations under review by the auditor. The auditor is authorized to transfer hours between issues, and since his activity is continuous, the auditor is able to transfer hours between years in order to allow for proper, extensive and intensive coverage of issues at his discretion. Furthermore, the scope of employment of the internal auditor is determined each year along with approval of the work plan, considering the scope of the work plan for the current year, its complexity and the sensitivity of issues reviewed in the current year.

Hours	2004	2005	2006
Hours invested in internal audit of the Company and held companies, regarding their operations in Israel.	150	200	100
Hours invested in internal audit of the Company and held companies, regarding their operations overseas.	0	0	0

To date the number of hours has not been reduced; nevertheless the auditor transfers hours between issues and between years.

(g) 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. The Board of Directors believes that the internal auditor is in compliance with requirements stipulated by the above standards, considering the internal auditor’s professional aptitude, skills, duration of his employment by the Company, his familiarity with the Company and the manner in which he edits, submits and presents to the Company the findings of the audits conducted by him.

(h) All documents and information requested by the internal auditor, including those regarding operations of subsidiaries, are provided to him as stipulated by Section 9 of the Internal Audit Law and he is granted free access to such information, including continuous, unmediated access to Company information systems, including its financial data.

(i) Below are details of the dates on which a written 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.

Issue	Report for 2004	Report for 2005	Report for 2006
Date of submission of internal auditor's report	January 13, 2005	February 8, 2006	March 5, 2007
Date of discussion by Audit Committee	January 26, 2005	February 20, 2006	March 25, 2007
Date of discussion by Board of Directors	January 26, 2005	February 20, 2006	March 25, 2007

(j) 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.

(k) For services rendered by him in 2006, the internal auditor was paid the amount of NIS 32,000 (or about US $7,500). The internal auditor is paid at a rate of US $50 per hour. The Board of Directors believes that compensation of the internal auditor does not influence his professional discretion considering, among others, the board's impression of the manner in which he executes his work as the Company's internal auditor, the level of detail, accuracy and diligence of reported audit findings submitted by him to date, as well as the ratio of his overall income to his compensation as the Company's internal auditor.

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 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, three 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 who have an academic degree in accountantship and currently serve and work as accountants and Mr. Moshe Baraz who has academic degree in accountantship and serves as a vice president and a chief financial officer (for further details see section 4.11.1 below).

2.9 Charitable Donation Policy: The Company's Articles of Association has no provisions for making charitable donations, and therefore the Company has no charitable donation policy and has not made any such donations in the relevant periods.

2.10 Critical accounting estimates: The critical accounting estimates used in the financial statements are: (a) estimates referring to cost and completion rate of projects where revenues are recognized as per Accounting Standard #4; and (b) bad debt provisions.

Estimation method: an estimate of project cost is determined based on an estimation of project managers within the Company and is approved by a senior manager. In case of material deviation during the project's life cycle, the estimate is reviewed and finally approved by a senior manager. The completion rate is estimated by the project managers based on physical progress and milestones in project execution.

2.11 Move to International Financial Reporting Standard:

In July 2006 the Israel Accounting Standards Boars published Accounting Standard #29, "Adoption of International Financial Reporting Standards (IFRS)" - hereinafter: "**the standard**". The standard stipulates that entities subject to the Securities Law 5728-1968 and obligated to report according to provisions of this law, shall create their financial statements according to IFRS standards for periods commencing on January 1, 2008. The standard allows for early adoption starting with financial statements published after July 31, 2006.

Initial adoption of IFRS standards will be made by implementing the IFRS 1, "First Adoption of IFRS regulation", for transition. According to the standard, the Company should include in a note to its annual financial statements as of December 31, 2007 the balance sheet data as of December 31, 2007 and the income statement data for the year ended on that date, after application of recognition, measurement and presentation rules of IFRS regulations.

The Company is reviewing the impacts of the move to IFRS regulations, but is unable, at this stage, to quantify the impact of adoption of these standards on its financial statements. Company management has appointed the CFO as responsible for the adoption process of IFRS regulations. The process stages, as determined by Company management, are as follows:

Actions taken by date of publication of annual financial statements as of December 31, 2006

- Review of all IFRS regulations.

- Identification of IFRS regulations applicable to the Company which require intensive review of their implications on the financial statements.
- Qualitative review of major implications anticipated for the Company due to adoption of IFRS regulations.

Future actions to be taken:

- Quantitative review of major implications anticipated for the Company from adoption of IFRS standards as of January 1, 2007 and creation of opening balance sheet as of January 1, 2007 according to IFRS regulations.
- Identification of material contracts and agreements which would be impacted by adoption of IFRS regulations, whether by changes to their provisions due to the move or by virtue of being based on or making reference to any data or indexes which will be modified by the move.
- Completion of qualitative and quantitative review of further implications anticipated due to adoption of IFRS regulations.
- Creation of balance sheet as of December 31, 2007 according to IFRS regulations.
- Creation of income statement for 2007 according to IFRS regulations.

Following is a description of the major expected impacts to Company financial statements due to the move to IFRS regulations, including potential changes to the Company's accounting policy due to such move:

- Determination of "functional currency" - according to IFRS, the functional currency is the currency of the primary economic environment in which the entity operates. This currency reflects the transactions, events and circumstances relevant for the entity. After determining the entity's functional currency, this becomes the currency by which operating results and financial status are measured. The "presentation currency" is the currency in which the entity presents its financial statements. According to IFRS, the entity may present its financial statements in any currency. Under generally accepted accounting practices in Israel, the Company measures and presents its operating results and financial status in NIS, translating the financial statements of held companies from their functional currency into NIS.
- Accrued severance pay - under generally accepted accounting practices in Israel, accrued severance pay is recognized based on the full liability, assuming all employees are terminated as of the balance sheet date under terms entitling them to full severance pay, regardless of discount rate, rate of future salary increase and future resignations. According to IFRS, post-retirement benefits due to a defined benefit plan should be measured based on actuarial estimated and discounted amounts, among others.
- Intangible assets created by development - IAS38 mandates that development costs incurred be recognized as assets according to criteria described by the standard, since the Company invests resources in research and development. The implementation of this standard may impact the opening balance on the transition date and future reported results due to discounting of development

costs as stipulated by the standard, instead of charging them to the income statement, as is common practice today.

- Fixed assets - according to IAS16, the Company has the choice between the cost model and the revaluation model. The Company should choose its accounting policy and review several parameters, such as annual review of residual value, amortization method, separation of initial cost to material portions etc.
- Provisions - according to IFRS, provisions should be recognized if the liability is more likely than not to occur as of the date of the balance sheet. According to generally accepted accounting principles in Israel, the Company recognizes a provision if use of economical resources for dispensing with the liability is probable.
- Issuance of index-linked options - according to IAS 32 and IAS 39 the options should be categorized as liabilities until converted to shares, and not as capital which is how they have been recorded to date under Israeli standards. Furthermore, changes to fair value are to be charged to the income statement.

Haim Shani, CEO and Chairman of the Board of Directors March 25, 2007	Zvi Livneh, Director March 25, 2007

UNITRONICS (1989) (R"G) LTD.

Financial Statements
December 31,2006

Unitronics (1989) (R"G) Ltd.

Financial Statements

December 31, 2006

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

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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, 2005 and 2006, 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, 2006. 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 3% and 4% of the total consolidated assets as at December 31, 2005 and 2006 respectively and whose revenues constitute 9%, 11% and 13%, of the total consolidated revenues for the years ended December 31, 2004, 2005 and 2006 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, 2005 and 2006, 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, 2006, in conformity with generally accepted accounting principles in Israel (Israeli GAAP).

As described in Note 2D, the above financial statements are in conformity with Accounting Standards of the Israel Accounting Standards Board.

Amit, Halfon
Certified Public Accountants (Israel)

March 25, 2007

Notes	Unitronics (1989) (R"G) Ltd. Consolidated Balance Sheets	December 31, 2006	December 31, 2006	December 31, 2005
			(in thousands)	
		Convenience translation into EURO, (unaudited) (1)	Reported NIS	
2H;3	Cash and cash equivalents	7,172	39,906	15,542
	Restricted cash	-	-	2,300
2I;4	Marketable securities	5,462	30,390	33,363
	Accounts receivable -			
5	Trade	2,817	15,675	10,103
6	Other	102	566	1,029
2J;7	Inventory	2,455	13,663	9,451
2K;8	Inventory - work in progress	34	194	-
	Current assets	*18,042*	*100,394*	*71,788*
	Long-term deposits	*61*	*339*	*201*
2M;10	*Property and equipment*	*4,057*	*22,576*	*22,471*
11	*Other assets*	*35*	*193*	*3,279*
24D	***Total assets***	***22,195***	***123,502***	***97,739***
12	Credit from banks and others	2,106	11,720	1,103
	Accounts payable -			
13	Trade	2,177	12,112	13,146
14	Other	2,057	11,444	12,305
	Current liabilities	*6,340*	*35,276*	*26,554*
15	Long-term debt	1,793	9,978	11,411
2O;16A	Convertible bonds	4,552	25,331	37,512
2O;16B	Bonds	5,366	29,859	-
17	Accrued severance pay, net	293	1,628	1,346
2T;21	Deferred taxes	-	-	251
	Long-term liabilities	*12,004*	*66,796*	*50,520*
18	Commitments and contingent liabilities			
19	*Shareholders' equity*	*3,851*	*21,430*	*20,665*
24D	***Total liabilities and shareholders' equity***	***22,195***	***123,502***	***97,739***

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

Approved: March 25, 2007

(1) See Note 2F.

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, 2006	For the year ended December 31, 2006	2005	2004
			(in thousands)		
		Convenience translation into EURO, (unaudited) (1)	Reported NIS		
2P;20A	Revenues	17,034	94,781	80,774	61,771
20B	Cost of revenues	11,174	62,176	55,888	40,428
	Gross profit	*5,860*	*32,605*	*24,886*	*21,343*
2Q;20C	Research & development expenses, net	1,531	8,521	5,753	4,292
20D	Selling & marketing expenses	1,972	10,970	9,659	7,872
20E	General & administrative expenses	1,097	6,102	6,302	4,083
	Operating profit	*1,260*	*7,012*	*3,172*	*5,096*
20F	Financing expenses, net	867	4,827	2,511	2,193
	Operating profit after financing expenses, net	*393*	*2,185*	*661*	*2,903*
	Other income, net	4	23	-	48
	Profit before taxes on income	*397*	*2,208*	*661*	*2,951*
2T;21	Taxes on income	15	85	37	72
	Profit for the year	*382*	*2,123*	*624*	*2,879*
2U;23	*Profit per 1 ordinary share NIS* 0.02 par value	*0.033*	*0.185*	*(*)0.054*	*(*)0.254*

(*) Restated, see Note 2U.

(1) See Note 2F.

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

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

	Share capital							
	Number of shares*	Amount	Capital reserves	Share premium	Receipts on account Of warrants	Company shares held by the company	Accumulated loss	Total
	Reported NIS in thousands							
Balance at January 1, 2004	10,676,546	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
Purchase of company shares by the company	-	-	-	-	-	(2,066)	-	(2,066)
Split of conversion option from covertible bonds, net	-	-	-	-	235	-	-	235
Benefit arising from warrants granted	-	-	11	-	-	-	-	11
Receipts on account of warrants	-	-	-	-	462	-	-	462
Profit for the year	-	-	-	-	-	-	2,123	2,123
Balance at December 31, 2006	11,676,546	352	11	48,442	1,373	(2,640)	(26,108)	21,430

	Share capital							
	Number of shares*	Amount	Capital reserves	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, 2006	11,677,546	63	-	8,706	122	(103)	(5,075)	3,713
Purchase of company shares by the company	-	-	-	-	-	(371)	-	(371)
Split of conversion option from covertible bonds, net	-	-	-	-	42	-	-	42
Benefit arising from warrants granted	-	-	2	-	-	-	-	2
Receipts on account of warrants	-	-	-	-	83	-	-	83
Profit for the year	-	-	-	-	-	-	382	382
Balance at December 31, 2006	11,676,546	63	2	8,706	247	(474)	(4,693)	3,851

* See Note 19.
(1) See Note 2F.

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,		
	2006	2006	2005	2004
	(in thousands)			
	Convenience translation into EURO, (unaudited) (1)	Reported NIS		
Profit for the year	382	2,123	624	2,879
Depreciation and amortization	649	3,610	3,004	2,099
Loss (profit) from marketable securities, net	156	867	(1,049)	(396)
Benefit arising from warrants granted	2	11	-	-
Capital gain	(4)	(23)	-	(48)
Increase in accrued severance pay, net	51	282	206	72
Deferred taxes, net	15	85	35	32
Exchange rate changes of long-term debt and convertible bonds	(63)	(352)	97	326
Decrease (increase) in accounts receivable - trade	(1,001)	(5,572)	(3,241)	(1,617)
Decrease (increase) in accounts receivable - other	83	463	(126)	(400)
Decrease (increase) in inventory	(757)	(4,212)	334	(3,406)
Decrease (increase) in inventory - work in progress	(35)	(194)	443	905
Increase (decrease) in accounts payable - trade	(186)	(1,034)	(284)	8,695
Increase (decrease) in accounts payable - other	(155)	(861)	4,410	2,525
Cash flows provided by (used in) operating activities	*(863)*	*(4,807)*	*4,453*	*11,666*
Sale of (investment in) marketable securities, net	378	2,106	(4,178)	(26,695)
Change in restricted cash	413	2,300	(2,300)	-
Purchase of property and equipment	(335)	(1,865)	(1,637)	(4,309)
Sale of equipment	9	48	-	246
Investment in long-term deposits	(32)	(176)	(94)	(37)
Repayment of long-term deposits	7	38	26	20
Investment in patent	(28)	(156)	(110)	(58)
Cash flows used in investing activities	412	*2,295*	*(8,293)*	*(30,833)*
Deferred offering expenses	-	-	-	(4,184)
Loans received from banks	-	-	11,063	-
Repayment of long-term loans	(22)	(125)	(12,042)	(594)
Loans received from others	-	-	-	283
Short-term credit from banks, net	-	(1)	(12)	13
Repayment of convertible bonds	(180)	(1,000)	-	-
Receipts on account of warrants	83	462	-	676
Purchase of company shares by the company	(371)	(2,066)	(574)	-
Convertible bonds issue	-	-	-	33,153
Share capital issue	-	-	-	4,737
Bonds issue	5,320	29,606	-	-
Cash flows provided by (used in) financing activities	4,830	*26,876*	*(1,565)*	*34,084*
Increase (decrease) in cash and cash equivalents	4,379	*24,364*	*(5,405)*	*14,917*
Cash and cash equivalents at beginning of year	2,793	15,542	20,947	6,030
Cash and cash equivalents at end of year	7,172	39,906	15,542	20,947

(1) See Note 2F.

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, 2006	For the year ended December 31, 2006	2005	2004
	(in thousands)			
	Convenience translation into EURO, (unaudited) (1)	Reported NIS		
Appendix A - Non cash transactions				
Payables related to property and equipment	-	-	-	300

(1) See Note 2F.

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

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

Notes		December 31, 2006	December 31, 2006	December 31, 2005
		(in thousands)		
		Convenience translation into EURO, (unaudited) (1)	Reported NIS	
2H;3	Cash and cash equivalents	7,057	39,267	14,545
	Restricted cash	-	-	2,300
2I;4	Marketable securities	5,461	30,390	33,363
	Accounts receivable -			
5	Trade	2,404	13,375	8,500
6	Other	1,357	7,549	6,862
2J;7	Inventory	2,346	13,054	9,223
2K;8	Inventory - work in progress	77	429	-
	Current assets	*18,702*	*104,064*	*74,793*
	Long-term deposits	*61*	*339*	*201*
2L;9	*Investment in subsidiaries*	*10*	*55*	*80*
2M;10	*Property and equipment*	*4,025*	*22,399*	*22,299*
11	*Other assets*	*35*	*193*	*3,279*
	Total assets	***22,833***	***127,050***	***100,652***
12	Credit from banks and others	2,106	11,720	1,103
	Accounts payable -			
13	Trade	2,139	11,897	12,937
14	Other	1,967	10,947	11,953
	Current liabilities	*6,212*	*34,564*	*25,993*
15	Long-term debt	1,793	9,978	11,411
2O;16A	Convertible bonds	4,552	25,331	37,512
2O;16B	Bonds	5,366	29,859	-
9	Provision for loss of subsidiaries	766	4,260	3,474
17	Accrued severance pay, net	293	1,628	1,346
2T;21	Deferred taxes	-	-	251
	Long-term liabilities	*12,770*	*71,056*	*53,994*
18	Commitments and contingent liabilities			
19	*Shareholders' equity*	3,851	*21,430*	*20,665*
	Total liabilities and shareholders' equity	***22,833***	***127,050***	***100,652***

(1) See Note 2F.

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

Notes	Unitronics (1989) (R"G) Ltd. Statements of Operations Company	For the year ended December 31, 2006	For the year ended December 31, 2006	2005	2004
			(in thousands)		
		Convenience translation into EURO, (unaudited) (1)	Reported NIS		
2P;20A	Revenues	16,307	90,734	77,495	59,689
20B	Cost of revenues	11,025	61,345	55,229	39,934
	Gross profit	*5,282*	*29,389*	*22,266*	*19,755*
2Q;20C	Research & development expenses, net	1,531	8,521	5,753	3,292
20D	Selling & marketing expenses	1,417	7,884	6,849	6,299
20E	General & administrative expenses	975	5,421	5,466	3,402
	Operating profit	*1,359*	*7,563*	*4,198*	*5,762*
20F	Financing expenses, net	821	4,567	2,294	2,273
	Operating profit after financing expenses, net	*538*	*2,996*	*1,904*	*3,489*
	Other income, net	4	23	-	48
	Profit before taxes on income	*542*	*3,019*	*1,904*	*3,537*
2T;21	Taxes on income	15	85	35	32
	Profit after taxes on income	*527*	*2,934*	*1,869*	*3,505*
	The Company's share of subsidiaries losses	145	811	1,245	626
	Profit for the year	*382*	*2,123*	*624*	*2,879*
2U;23	*Profit per 1 ordinary share NIS 0.02 par value*	*0.033*	*0.185*	*(*)0.054*	*(*)0.254*

(*) Restated, see Note 2U.

(1) See Note 2F.

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,		
	2006	2006	2005	2004
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	Reported NIS		
Profit for the year	382	2,123	624	2,879
The Company's share of subsidiaries losses	145	811	1,245	626
Depreciation and amortization	641	3,564	2,958	2,077
Benefit arising from warrants granted	2	11	-	-
Loss (profit) from marketable securities, net	156	867	(1,049)	(396)
Capital gain	(4)	(23)	-	(48)
Increase in accrued severance pay, net	51	282	206	72
Deferred taxes, net	15	85	35	32
Exchange rate changes of long-term debt and convertible bonds	(63)	(352)	97	326
Decrease (increase) in accounts receivable - trade	(876)	(4,875)	(2,542)	(1,381)
Increase (decrease) in accounts receivable - other	(123)	(687)	(2,475)	(1,395)
Decrease (increase) in inventory	(688)	(3,831)	314	(3,389)
Decrease (increase) in inventory - work in progress	(77)	(429)	443	905
Increase (decrease) in accounts payable - trade	(188)	(1,040)	(277)	8,488
Increase in accounts payable - other	(182)	(1,006)	4,120	2,553
Cash flows provided by (used in) operating activities	*(809)*	*(4,500)*	*3,699*	*11,349*
Sale of (investment in) marketable securities, net	378	2,106	(4,178)	(26,695)
Change in restricted cash	413	2,300	(2,300)	-
Investment in subsidiaries	-	-	-	(1)
Purchase of property and equipment	(325)	(1,814)	(1,576)	(4,156)
Sale of equipment	9	48	-	246
Investment in long-term deposits	(32)	(176)	(94)	(37)
Repayment of long-term deposits	7	38	26	20
Investment in patent	(28)	(156)	(110)	(58)
Cash flows used in investing activities	*422*	*2,346*	*(8,232)*	*(30,681)*
Deferred offering expenses	-	-	-	(4,184)
Loans received from bank	-	-	11,063	-
Repayment of long-term loans	(22)	(125)	(12,042)	(594)
Loans received from others	-	-	-	283
Short-term credit from banks, net	-	(1)	1	-
Repayment of bonds	(180)	(1,000)	-	-
Receipts on account of warrants	83	462	-	676
Purchase of company shares by the company	(371)	(2,066)	(574)	-
Convertible bonds issue	-	-	-	33,153
Share capital issue	-	-	-	4,737
Bonds issue	5,320	29,606	-	-
Cash flows provided by (used in) financing activities	*4,830*	*26,876*	*(1,552)*	*34,071*
Increase (decrease) in cash and cash equivalents	*4,443*	*24,722*	*(6,085)*	*14,739*
Cash and cash equivalents at beginning of year	*2,614*	*14,545*	*20,630*	*5,891*
Cash and cash equivalents at end of year	*7,057*	*39,267*	*14,545*	*20,630*

(1) See Note 2F.

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,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	Reported NIS		
Appendix A - Non cash transactions				
Payables related to property and equipment	-	-	-	300

(1) See Note 2F.

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"). As described in Note 2(X)(1) the company will be required to prepare its financial statements in accordance with IFRS starting from the period commencing on January 1, 2008.

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 25).

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).

2. Financial statements in reported amounts

(a) Definitions
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, 2006	Change for the year ended December 31, 2006	December 31, 2005	Change for the year ended December 31, 2005	December 31, 2004	Change for the year ended December 31, 2004
Israeli CPI (in points) (*)	184.87	(0.10)	185.05	2.38%	178.58	(1.21%)
Exchange rate of the EURO against the NIS	5.5643	(8.21)	5.4465	(7.32%)	5.5331	6.21%
Exchange rate of the USD against the NIS	4.225	2.16	4.603	6.85%	4.379	(1.62%)

(*) 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) 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.

Note 2 - Significant Accounting Policies (cont'd)

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, 2006 (EURO 1 = NIS 5.5643).

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.

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.

See also Note 2X(2) - the affect of Accounting Standard No. 25 in the period before application.

K. Inventory - work in progress and customers' advances

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

Customers' 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.

Note 2 - Significant Accounting Policies (cont'd)

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.

financing costs are capitalised to qualified assets according to Accounting Standard No. 3 of the Israel Accounting Standard Board.

See also Note 2X(3) - the affect of Accounting Standard No. 27 in the period before application.

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.

O. Financial Instruments

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

As a result of the initial application of the standard, the equity has been increased against a decrease in liabilities due to charge of the equity component of the financial instruments to the equity at the amount of NIS 235 thousands (Euro 42 thousands) (the discount rate used is Libor + 3.875%). In addition, issue expenses related to the convertible bonds have been deducted from the liabilities and were taken in account in the effective interest calculation. This issue expenses of NIS 2,796 thousand (Euro 494 thousands) as at December 31, 2005 were deducted on January 1, 2006, from the liabilities presented in the balance sheet at December 31, 2005.

Till December 31, 2005 Convertible bonds were 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 was not foreseeable, the debentures were included as a liability at their liability value; in the event conversion was likely, the debentures were stated between long-term liabilities and shareholders' equity at the greater of their liability value or capital value.
In addition, convertible bonds offering expenses have been presented in other assets and deferred expenses at the balance sheet and were amortized over the bonds maturity period, proportionally to balance of bonds remaining.

Note 2 - Significant Accounting Policies (cont'd)

P. Revenue recognition

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

In addition, according to the standard, the revenues are measured according to the fair value of the return that was received or is expected to be received. In case that the agreement between the parties includes, actually, a credit deal, the fair value of the return will be determined by calculating the present value of the expected cash flow. The difference between the present value as stated above and between the nominal return, will be recorded as an interest income. The calculation of the present value is performed when the credit terms are longer then the regular credit terms.

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

Recognition
1. Income arising from sale of products is recognized upon delivery to the customer (distributor).

2. Revenues from performance contracts are recognized, according to the Accounting Standard No. 4 of the Israeli Accounting Standard Board, 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).

Q. Research and development

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

R. Provision for doubtful accounts

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

S. 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)

T. Taxes on income

<u>General</u>
The company Implements Accounting Standard No.19 of the Israeli Accounting Standard Board - "Taxes on Income" ("the standard"). The standard determines the rules for the recognition, measurement, presentation and the disclosure of taxes on income and deferred taxes in the financial statements.

<u>Deferred income taxes</u>
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.

U. Profit per share

Since January 1, 2006 the company implements Accounting Standard No. 21 of the Israel Accounting Standard Board, "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, warrants will be included in diluted earnings where their exercise results in the issuance of shares for a consideration which is less than the market price of the shares. The amount of dilution is the market price of the shares less the amount that would have been received as a result of the conversion of the options into shares. This is in contrast to the method of computation prescribed by Opinion No. 55, which also includes adjustments to earnings.
The company's share of earnings of an investee is to be included based on the company's share in the earnings per share of the investee multiplied by the number of shares held by the company.

As a result of the initial application of this Standard the comparative data for earnings per share were retrospectively restated. The comparative data, before the restatement, were profit of NIS 2.68 and NIS 12.69 for the years ended December 31, 2005 and 2004 respectively.

V. Share-Based Payment

Since January 1, 2006 the company implements Accounting Standard No. 24 of the Israel Accounting Standard Board, "Share-Based Payment" ("the Standard"). The Standard prescribes principles of measurement and specifically requires for three types of share-based payment transactions:

a. Share-based payment transactions which will be settled in equity instruments.
b. Share-based payment transactions which will be settled in cash.
c. Share-based payment transactions which the entity or the other party can determine the way it will be settled.

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

W. Presentation of transactions between company and controlling shareholder

The transactions between the company and the controlling shareholder are presented according to the Securities Regulations (Presentation of transactions between company and controlling shareholder in the financial statements) - 1996.

See also Note 2X(4) - the affect of Accounting Standard No. 23 in the period before application.

Note 2 - Significant Accounting Policies (cont'd)

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

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

   In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29 - "Adoption of International Financial Reporting Standards (IFRS)" ("the Standard").

   International Financial Reporting Standards comprise standards and interpretations adopted by the International Accounting Standards Board, and include:
   a) International Financial Reporting Standards (IFRS)
   b) International Accounting Standards (IAS)
   c) Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by its predecessor, the Standing Interpretations Committee (SIC).

   Pursuant to the Standard, companies that are subject to the provisions of the Securities Law, 1968, and that are required to report according to the regulations published thereunder, will be required to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008. These companies, as well as other companies, may adopt IFRS early and prepare their financial statements in accordance with IFRS starting with financial statements that are issued subsequent to July 31, 2006.

   For transition purposes, companies that prepare their financial statements in accordance with IFRS will be required to adopt the provisions of IFRS 1, "First-time Adoption of IFRS".

   A company that adopts IFRS commencing from January 1, 2008, and that has elected to include comparative data for only one year (2007) will be required to prepare an opening balance sheet as of January 1, 2007 ("Opening IFRS Balance Sheet"). The Opening IFRS Balance Sheet will require the following:

   - Recognition of all assets and liabilities whose recognition is required by IFRS.
   - De-recognition of assets and liabilities if IFRS do not permit such recognition.
   - Classification of assets, liabilities and components of equity according to IFRS.
   - Application of IFRS in the measurement of all recognized assets and liabilities.

   In order to ease first-time adoption, a number of exemptions from IFRS have been granted in respect of the Opening IFRS Balance Sheet, which exemptions may be elected, in whole or in part. Exceptions have also been established which prohibit retrospective application of certain aspects of IFRS.

   According to the Standard, the Company is required to include in a note to the annual financial statements as of December 31, 2007, a balance sheet as of December 31, 2007, and a statement of income for the year then ended, that have been prepared based on the recognition, measurement and presentation criteria of IFRS.

   There are differences between IFRS and generally accepted accounting principles in Israel in the recognition and measurement of assets and liabilities and in reporting and disclosure requirements. These differences could have a material impact on the Company's financial position and results of operations. The first-time adoption of IFRS will require the Company to identify such differences, a process that will entail a significant amount of time and resources.

   The Company is evaluating the implications of the transition to IFRS but is presently unable to estimate the effect of the adoption of IFRS on its financial statements.

Note 2 - Significant Accounting Policies (cont'd)

X. Disclosure of the effects of new Accounting Standards prior to their adoption (cont'd)

2. Accounting standard No. 26 - "Inventories"

In August 2006, the Israel Accounting Standards Board published Accounting Standard No. 26 - "Inventories" ("the Standard").

The Standard applies to all types of inventories, excluding work in progress arising from construction contracts, which is subject to the provisions of Accounting Standard No. 4, "Construction-type Contracts", inventory of buildings for sale, which is subject to the provisions of Accounting Standard No. 2, "Construction of Buildings for Sale" and financial instruments.

The Standard prescribes that inventories should be measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale. The cost of inventories should be determined based on the "first in - first out" (FIFO) method or using weighted average cost, provided that the same method is applied in respect of inventories having a similar nature and use. Measurement of the cost of inventories based on the "last in - first out" (LIFO) method is not permitted.

In accordance with the Standard, when inventories are purchased under credit terms whereby the arrangement involves a financing element, the inventories should be presented at cost reflecting the cash purchase price and the financing element should be recognized as a financial expense over the period of the financing.

In respect of the allocation of conversion costs to inventories, the Standard prescribes that if in a particular period, production is not at normal capacity, then the cost of inventories should not include allocation of fixed overhead costs in excess of that allocated based on normal capacity. Such unallocated overhead costs should be recognized as an expense in the statement of income in the period in which they are incurred. Furthermore, cost of inventories should not include abnormal amounts of materials, labor and other costs resulting from inefficiency.

When a write-down of inventories has been recognized and subsequently there is an increase in their value, the amount of the write-down is reversed. The amount of the write-down or its reversal should be recorded in cost of sales in the statement of income.

The Standard will be applicable to financial statements for periods beginning January 1, 2007 and thereafter. The provisions of the Standard are to be applied retrospectively, by restating comparative amounts relating to prior periods.

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. Accounting standard No. 27 - "Fixed Assets"

In September 2006, the Israel Accounting Standards Board published Accounting Standard No. 27 - "Fixed Assets" ("the Standard"). The Standard is applicable to financial statements for periods commencing on January 1, 2007 ("the effective date") or thereafter.

The initial recognition of fixed assets will be based on the cost of purchase. After the initial recognition, the Standard enables choosing between the cost method or the reevaluation method as the accounting policy and to apply it consistently with regard to a group of fixed asset items of a similar nature and usage. According to the reevaluation method, fixed assets are to be presented at an amount revalued based on the fair value upon the date of reevaluation less accumulated depreciation and subsequent impairment losses. The revaluation of fixed assets will be carried to capital reserve in shareholders' equity with the deduction of the tax effect. This capital reserve will be carried directly to retained earnings once the asset has been disposed of or during the use of the asset (according to the rate of depreciation). Revalued assets will be depreciated based on the revalued amount.

Note 2 - Significant Accounting Policies (cont'd)

X. Disclosure of the effects of new Accounting Standards prior to their adoption (cont'd)

3. Accounting standard No. 27 - "Fixed Assets" (cont'd)

According to the Standard, each component of fixed assets with a different life and cost that is material in relation to total cost of fixed assets is to be depreciated separately. The asset's depreciation shall be based on its useful life for the Company, which will be tested at year end, and will be discontinued at the earlier of the date of the asset's classification as held for sale or the date of the asset's disposal. An asset held for sale is an asset which is available for immediate sale as is, which the Company has an obligation to sell and in respect of which the sale is expected to be completed within a year from classification. Furthermore, upon the adoption of the Standard, a change in the method of depreciation will be accounted for as a change in accounting estimate, prospectively rather than by way of cumulative effect, as customary prior to the effective date.

The cost of fixed assets obtained in a swap transaction will be measured at fair value unless the transaction is commercially immaterial or if the fair value of the fixed assets obtained or delivered cannot be reliably measured. The Standard actually replaces the restriction for the measurement of similar assets at fair value with a restriction regarding commercially immaterial transactions. A transaction is commercially material if it leads to a change in amount, timing and risk of future cash flows from the asset.

The cost of fixed assets will also include an initial evaluation of costs of the asset's liquidation and evacuation and restoration of the site on which the asset is located which are undertaken by the Company. The evaluation will be recorded at its present value while using a discount rate reflecting the Company's risk.

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.

4. Accounting Standard No. 23 - "Accounting treatment of transactions between an entity and a controlling shareholder in it"

In December 2006 the Israel Accounting Standards Board published Accounting Standard No. 23 - "Accounting treatment of transactions between an entity and controlling shareholder in it" ("the Standard"). The Standard is applicable to financial statements for periods commencing on January 1, 2007 ("the effective date") or thereafter.

The object of the Standard is to determine the accounting treatment of transactions between an entity and a controlling shareholder in it, apart from a transaction of a business combination under the same control, witch the accounting treatment will continue to base on the book value in the controlling shareholder's books.

The Standard stipulates that assets and liabilities for which a transaction was executed between an entity and a controlling shareholder in it will be measured on the date of the transaction according to their fair value and the difference between the fair value and the consideration determined in the transaction will be posted to shareholders' equity. A debit difference is in effect a dividend, and therefore, reduces retained earnings. A credit difference is in effect a shareholders' investment and will be presented in a separate item in shareholders' equity to be called "capital reserves from a transaction between an entity and a controlling shareholder in it".

The amount posted to shareholders' equity in accordance with the Standard will not be posted to the statement of income even if during later periods, the items that were the subject of transactions between the entity and the controlling shareholder in it are removed from the financial statements.

The provisions of Accounting Standard No. 19 stipulate that current taxes and deferred taxed will be posted to shareholders' equity if the tax relates to items posted directly to shareholders' equity. Therefore, in a transaction between an entity and a controlling shareholder in it, the tax effect will be deducted from the amount posted to shareholders' equity.

Note 3 - Cash and cash equivalents

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

	December 31, 2006	December 31, 2006	December 31, 2005
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Israeli currency	4,930	27,432	3,870
Foreign currency	2,242	12,474	11,672
	7,172	*39,906*	*15,542*

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

	December 31, 2006	December 31, 2006	December 31, 2005
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Israeli currency	4,910	27,322	3,700
Foreign currency	2,147	11,945	10,845
	7,057	*39,267*	*14,545*

Note 4 - Marketable securities

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

	December 31, 2006	December 31, 2006	December 31, 2005
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
NIS bonds			
Linked to Israeli CPI	2,839	15,794	16,096
Linked to USD	556	3,095	2,523
Unlinked	842	4,687	3,869
USD bonds	1,225	6,814	10,875
	5,462	*30,390*	*33,363*

Note 5 - Accounts receivable - trade

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

	December 31, 2006	*December 31, 2006*	*December 31, 2005*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Related to work in progress in connection with long-term contracts (*):			
Open accounts	659	3,665	4,887
Income receivable	1,288	7,168	1,837
	1,947	10,833	6,724
Others:			
Open accounts	947	5,270	3,826
Post-dated checks receivable	4	24	5
	951	5,294	3,831
	2,898	16,127	10,555
Provision for doubtful accounts	(81)	(452)	(452)
	2,817	*15,675*	*10,103*
(*) Recognized revenues related to work in progress	7,255	40,370	40,486
Less amounts received from customers in respect of work in progress	5,411	30,108	34,444
	1,844	10,262	6,042
VAT related to open accounts	103	571	682
	1,947	*10,833*	*6,724*
The contracts amounts signed during the period	*6,442*	*35,847*	*33,396*
Balance of contracts amounts where revenues were not recognized	*3,612*	*20,100*	*21,458*

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

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

	December 31, 2006	December 31, 2006	December 31, 2005
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Related to work in progress in connection with long-term contracts (*):			
Open accounts	896	4,985	4,887
Income receivable	913	5,082	1,837
	1,809	10,067	6,724
Others:			
Open accounts	661	3,678	2,167
Post-dated checks receivable	4	24	3
	665	3,702	2,170
	2,474	13,769	8,894
Provision for doubtful accounts	(70)	(394)	(394)
	2,404	*13,375*	*8,500*
(*) Recognized revenues related to work in progress	7,098	39,493	40,486
Less amounts received from customers in respect of work in progress	5,423	30,174	34,444
	1,675	9,319	6,042
VAT related to open accounts	134	*748*	*682*
	1,809	*10,067*	*6,724*
The contracts amounts signed during the period	*5,893*	*32,788*	*33,396*
Balance of contracts amounts where revenues were not recognized	*3,200*	*17,806*	*21,458*

Note 6 - Accounts receivable - other

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

	December 31, 2006	December 31, 2006	December 31, 2005
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Government institutions	18	100	46
Prepaid expenses	9	52	257
Income tax	57	315	591
Others	18	99	135
	102	*566*	*1,029*

Note 6 - Accounts receivable - other (cont'd)

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

	December 31, 2006	December 31, 2006	December 31, 2005
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Government institutions	14	78	34
Subsidiaries	1,272	7,076	5,942
Prepaid expenses	9	52	257
Income tax	56	309	509
Others	6	34	120
	1,357	*7,549*	*6,862*

Note 7 - Inventory

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

	December 31, 2006	December 31, 2006	December 31, 2005
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Raw and packing materials	1,283	7,141	3,518
Work in process	627	3,488	2,902
Finished products	545	3,034	3,031
	2,455	*13,663*	*9,451*

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

	December 31, 2006	December 31, 2006	December 31, 2005
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Raw and packing materials	1,283	7,141	3,518
Work in process	627	3,488	2,902
Finished products	436	2,425	2,803
	2,346	*13,054*	*9,223*

Note 8 - Inventory - work in progress

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

	December 31, 2006	*December 31, 2006*	*December 31, 2005*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Cost of work performed	6,160	34,278	36,774
Less amounts charged to statements of operations	6,126	34,084	36,774
	34	*194*	-

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

	December 31, 2006	*December 31, 2006*	*December 31, 2005*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Cost of work performed	6,104	33,964	36,774
Less amounts charged to statements of operations	6,027	33,535	36,774
	77	*429*	-

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. In 2006 Unitronics U.S.A. started to operate in the projects area.

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, 2006	*December 31, 2006*	*December 31, 2005*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Cost of shares	(*)-	1	1
Company’s share of losses	(756)	(4,206)	(3,395)
	(756)	*(4,205)*	*(3,394)*
Presented in invesments in subsidiaries	*10*	*55*	*80*
Presented in long term liabilities	*(766)*	*(4,260)*	*(3,474)*

(*) 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, 2006	*20,882*	*4,100*	*1,124*	*1,682*	*27,788*
Additions	-	1,744	-	121	1,865
Disposales	-	-	(319)	-	(319)
Balance as at December 31, 2006	*20,882*	*5,844*	*805*	*1,803*	*29,334*
Accumulated depreciation					
Balance as at January 1, 2006	*1,570*	*2,511*	*434*	*802*	*5,317*
Depreciation during the year	584	871	136	144	1,735
Disposales	-	-	(294)	-	(294)
Balance as at December 31, 2006	*2,154*	*3,382*	*276*	*946*	*6,758*
Net book value as at December 31, 2006	*18,728*	*2,462*	*529*	*857*	*22,576*
Net book value as at December 31, 2005	*19,312*	*1,589*	*690*	*880*	*22,471*

Unitronics (1989) (R"G) Ltd. Consolidated	**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, 2006	*3,753*	*737*	*202*	*302*	*4,994*
Additions	-	313	-	22	335
Disposales	-	-	(57)	-	(57)
Balance as at December 31, 2006	*3,753*	*1,050*	*145*	*324*	*5,272*
Accumulated depreciation					
Balance as at January 1, 2006	*282*	*451*	*78*	*144*	*955*
Depreciation during the year	105	157	24	26	312
Disposales	-	-	(52)	-	(52)
Balance as at December 31, 2006	*387*	*608*	*50*	*170*	*1,215*
Net book value as at December 31, 2006	*3,366*	*442*	*95*	*154*	*4,057*

(*) Includes specific capitalized financing costs (NIS 1,015 thousand, EURO 186 thousand, as at December 31, 2005 and 2006), 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, 2006	*20,882*	*4,100*	*1,124*	*1,426*	*27,532*
Additions	-	1,744	-	70	1,814
Disposales	-	-	(319)	-	(319)
Balance as at December 31, 2006	*20,882*	*5,844*	*805*	*1,496*	*29,027*
Accumulated depreciation					
Balance as at January 1, 2006	1,570	2,511	434	718	5,233
Depreciation during the year	584	871	136	98	1,689
Disposales	-	-	(294)	-	(294)
Balance as at December 31, 2006	*2,154*	*3,382*	*276*	*816*	*6,628*
Net book value as at December 31, 2006	*18,728*	*2,462*	*529*	*680*	*22,399*
Net book value as at December 31, 2005	*19,312*	*1,589*	*690*	*708*	*22,299*

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, 2006	*3,753*	*737*	*202*	*256*	*4,948*
Additions	-	313	-	13	326
Disposales	-	-	(57)	-	(57)
Balance as at December 31, 2006	*3,753*	*1,050*	*145*	*269*	*5,217*
Accumulated depreciation					
Balance as at January 1, 2006	*282*	*451*	*78*	*129*	*940*
Depreciation during the year	105	157	24	18	304
Disposales	-	-	(52)	-	(52)
Balance as at December 31, 2006	*387*	*608*	*50*	*147*	*1,192*
Net book value as at December 31, 2006	*3,366*	*442*	*95*	*122*	*4,025*

(*) Includes specific capitalized financing costs (NIS 1,015 thousand, EURO 186 thousand, as at December 31, 2005 and 2006), 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, 2006	*December 31, 2006*	*December 31, 2005*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Deferred taxes	-	-	336
Patents and licenses	35	193	144
Deferred offering expenses	-	-	2,799
	35	*193*	*3,279*

Note 12 - Credit from banks and others

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

	December 31, 2006	*December 31, 2006*	*December 31, 2005*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Credit from banks - in NIS	-	-	1
Current maturities of long-term debt	2,106	11,720	1,102
	2,106	11,720	*1,103*

Note 13 - Accounts payable - trade

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

	December 31, 2006	December 31, 2006	December 31, 2005
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Suppliers	1,525	8,485	10,650
Post-dated checks payable	652	3,627	2,496
	2,177	*12,112*	*13,146*

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

	December 31, 2006	December 31, 2006	December 31, 2005
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Suppliers	1,486	8,270	10,441
Post-dated checks payable	653	3,627	2,496
	2,139	*11,897*	*12,937*

Note 14 - Accounts payable - other

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

	December 31, 2006	December 31, 2006	December 31, 2005
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Employees, payroll and taxes	459	2,553	2,124
Provision for vacation	70	387	376
Accrued expenses	1,486	8,269	6,924
Customers' advances (*)	-	-	1,036
Prepaid income	-	-	1,783
Others	42	235	62
	2,057	*11,444*	*12,305*

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

Unitronics (1989) (R"G) Ltd. Company	*December 31, 2006*	*December 31, 2006*	*December 31, 2005*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Employees, payroll and taxes	459	2,542	2,111
Provision for vacation	70	387	376
Accrued expenses	1,377	7,776	6,585
Consolidated company	4	24	-
Customers' advances (*)	-	-	1,036
Prepaid income	-	-	1,783
Others	*39*	218	62
	1,967	*10,947*	*11,953*
Consolidated and Company			
(*) Amounts received from customers in respect of work in progress	-	-	3,412
Less revenues charged to statement of operations	-	-	2,376
	-	-	*1,036*

Note 15 - Long term debt

A. Consisting of the following:

Unitronics (1989) (R"G) Ltd. Consolidated and Company	**Annual Interest Rates %**	*December 31, 2006*	*December 31, 2006*	*December 31, 2005*
			(in thousands)	
		Convenience translation into EURO, (unaudited)	**Reported NIS**	
Long-term bank debt				
Linked to the USD	Libor+2.02	912	5,072	5,524
Linked to the EURO	Libor+2.02	1,015	5,650	5,528
Less current maturities		(175)	(974)	-
		1,752	*9,748*	*11,052*
Long-term debt from others				
Motor vehicles lessors - linked to the Israeli CPI	5.73 - 8.5	66	366	517
Less current maturities		(25)	(136)	(158)
		41	*230*	*359*
		1,793	*9,978*	*11,411*

Note 15 - Long term debt (cont'd)

B. Aggregate maturities are as follows:

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

	December 31, 2006	*December 31, 2006*	*December 31, 2005*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Second year	198	1,100	1,149
Third year	194	1,079	1,131
Fourth year	175	974	1,093
Fifth year	175	974	1,005
Sixth year and thereafter	1,052	5,851	7,033
	1,793	*9,978*	*11,411*

Note 16 - Bonds (consolidated and company)

A. Convertible Bonds

1. 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.

2. 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 - Bonds (consolidated and company) (cont'd)

A. Convertible Bonds (cont'd)

3. Consisting of the following:

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

	December 31, 2006	December 31, 2006	December 31, 2005
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Bonds linked to USD	6,290	35,000	35,098
Bonds linked to EURO	683	3,803	4,698
	6,973	38,803	39,796
Less discount, net	(514)	(2,862)	(1,340)
	6,459	35,941	38,456
Less current maturities	(1,907)	(10,610)	(944)
	4,552	25,331	37,512

4. Aggregate maturities are as follows:

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

	December 31, 2006	December 31, 2006	December 31, 2005
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Current maturities	1,907	10,610	944
Second year	1,921	10,693	10,626
Third year	1,573	8,750	10,676
Fourth year	1,573	8,750	8,775
Fifth year	-	-	8,775
	6,974	*38,803*	*39,796*

Note 16 - Bonds (consolidated and company) (cont'd)

B. Bonds

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

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

   The gross amount raised amounted to approximately NIS 32 million.

2. Consisting of the following:

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

	December 31, 2006	December 31, 2006	December 31, 2005
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Bonds linked to the Israeli CPI	6,110	34,000	-
Less discount, net	(744)	(4,141)	-
	5,366	*29,859*	-

3. Aggregate maturities are as follows:

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

	December 31, 2006	December 31, 2006	December 31, 2005
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Current maturities	-	-	-
Second year	-	-	-
Third year	1,222	6,800	-
Fourth year	1,222	6,800	-
Fifth year	1,222	6,800	-
Sixth year and thereafter	2,444	13,600	-
	6,110	*34,000*	-

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.

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, 2006	December 31, 2006	December 31, 2005
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	
Accrued severance pay	601	3,345	2,730
Less - amounts funded	308	1,717	1,384
	293	*1,628*	*1,346*

Note 18 - 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, 2006 amounts to NIS 2,420 thousands (EURO 435 thousands).

2. On July 18, 2006, the company contracted with with the City of Hoboken, New Jersey in the USA to operate an automated parking system created a few years previously in the city and operated until that time by Robotic Parking Inc. (hereinafter: "Robotic"). This was for a period of several months, pending the issue of an official tender for upgrade and replacement of the system's software and control systems. Under the terms of the contract, the City committed to indemnify the company for any damages caused by suits filed by Robotic.
   Robotic filed a claim against the City of Hoboken at the Federal Court in the State of New Jersey for breach of proprietary rights and breach of contract, and asked for an injunction against the City to prohibit the company from operating the system. After several hearings, the judge issued the injunction against the City to discontinue the company operations on site of the system. As per the court's decision, the company's staff left the site in November 2006, and City staff operated the system.

   In December 2006, the company was awarded the tender by the City of Hoboken to repair the electrical and mechanical systems and to replace the software and control systems of the parking system, and commenced operations on site. Under the terms of the tender, the City committed to indemnify Unitronics Inc. for any damages caused by suits filed by Robotic.

Note 18 - Commitments and Contingent Liabilities(cont'd)

A. Contingent liabilities (cont'd)

2. (cont'd)
On December, 2006 Robotic filed an amended claim against the City and its management, with the company and Unitronics Inc. added as co-defendants, for patent infringement and infringement of intellectual property rights, breach of contract and libel.

The claim was submitted to Unitronics Inc. at its US offices on January 15, 2007. On January 26. 2007 Unitronics Inc. filed its statement on defense.
Concurrently, Robotic tried to serve the claim on Unitronics as well, by serving it at the offices of Unitronics Inc., but Unitronics filed an objection with the court to this serving. The court has yet to decide on this issue.
On February 22, 2007 the court ruled that the case will progress to the discovery phase.

3. In January 2006 the Company through counsel in the United States filed a claim in the US court against a private individual who approached the company and 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 the company is petitioning the court to declare that the defendant's registered patent in the United States is invalid and that the company's actions do not infringe the defendant's intellectual property rights. The company 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 the company's distributors in the United States. The defendant did not submit a statement of defense within the stipulated time, but rather submitted a written response to the court, which decided to regard said letter as a response and statement of defense, and in light of this fact and despite the Company's request that the court rule in its favor (in the absence of defense) - decided to continue the proceedings. On June 2, 2006 a conference call hearing was held in the case, where it was decided that the case should progress to the discovery phase. As of the date of this report, a detailed schedule was set for the coming stages in these proceedings, through May 2007. On November 3, 2006 a further conference call hearing was held, where the defendant was required to submit documents and information in an orderly manner, no later than December 20. Towards the end of this time period, the defendant submitted a letter in German to the court. On December 22, 2006, the court ruled that court translation services are unavailable for civil proceedings, and that the defendant should translate his letter into English no later than January 22, 2007. The defendant filed multiple documents after this date, and the parties await the court's ruling on continuation of the proceedings.

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 6,265 thousands (EURO 1,126 thousands).

Note 19 - Share Capital

A. Composition

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

Note 19 - Share Capital (cont'd)

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.
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.
As of the date of publishing the financial statements, options to purchase 435,250, 793,499 and 502,000 ordinary shares have been granted under the 1999, 2001 and 2003 option plans respectively. 350,250, 454,499 and 250,000 options under the 1999, 2001 and 2003 option plans, respectively, were expired as of December 31, 2006 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 EURO 0.82, 317,000 options exercisable under the 2001 plan at a price of EURO 0.91, 216,000 options exercisable under the 2003 plan at a price of EURO 1.3.

From the expired options under 2003 option plan, 10,000 options have been granted to an outside director. These options exercisable at a price of EURO 1 till May 2009, witout maturity period.

C. 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).

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

E. 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.

Note 20 - 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,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Customer A	86	478	8,364	10,383
Customer B	143	796	16,274	7,140
Customer C	2,883	16,042	5,452	278

B. Cost of revenues

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

	For the year ended December 31,	*For the year ended December 31,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Materials consumed and subcontractors	8,980	49,970	43,464	32,969
Payroll and related benefits	1,894	10,540	8,296	5,920
Changes in work in process and finished products	(759)	(4,222)	108	(1,995)
Depreciation	165	914	786	636
Management and maintenance costs	116	642	638	511
Other expenses	778	4,332	2,596	2,387
	11,174	*62,176*	*55,888*	*40,428*

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

	For the year ended December 31,	*For the year ended December 31,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Materials consumed and subcontractors	8,876	49,391	43,464	32,969
Payroll and related benefits	1,894	10,540	8,296	5,920
Changes in work in process and finished products	(689)	(3,832)	87	(1,978)
Depreciation	165	914	786	636
Other expenses	779	4,332	2,596	2,387
	11,025	*61,345*	*55,229*	*39,934*

Note 20 - 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,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Payroll and related benefits	1,029	5,726	3,837	3,111
Subcontractors	83	464	286	172
Other expenses	419	2,331	1,670	1,374
Less - government participation	-	-	*(40)*	*(365)*
	1,531	*8,521*	*5,753*	*4,292*

D. Selling and marketing expenses

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Salaries and related benefits	903	5,021	4,506	3,516
Travel and marketing abroad	99	552	556	436
Exhibits, advertising and other expenses	970	5,397	4,597	3,920
	1,972	*10,970*	*9,659*	*7,872*

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Salaries and related benefits	726	4,037	3,649	3,053
Travel and marketing abroad	99	552	556	436
Exhibits, advertising and other expenses	592	3,295	2,644	2,810
	1,417	*7,884*	*6,849*	*6,299*

Note 20 - 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,		
	2006	2006	2005	2004
	(in thousands)			
	Convenience translation into EURO, (unaudited)	Reported NIS		
Salaries and related benefits	455	2,532	2,854	1,722
Office rent, maintenance and communications	72	402	438	221
Depreciation	83	464	294	161
Professional services	400	2,221	2,041	1,418
Bad and doubtful debts	-	-	229	17
Others	87	483	446	544
	1,097	*6,102*	*6,302*	*4,083*

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

	For the year ended December 31,	For the year ended December 31,		
	2006	2006	2005	2004
	(in thousands)			
	Convenience translation into EURO, (unaudited)	Reported NIS		
Salaries and related benefits	455	2,532	2,854	1,722
Office rent, maintenance and communications	17	92	112	60
Depreciation	74	411	249	137
Professional services	362	2,006	1,750	1,238
Bad and doubtful debts	-	-	193	-
Others	67	380	308	245
	975	*5,421*	*5,466*	*3,402*

Note 20 - 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,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Financing cost relating to bonds	956	5,320	3,333	2,361
Loss (profit) from marketable securities, net	(138)	(770)	(2,425)	(396)
Loss (gain) on cash and cash equivalents and bank deposits	(129)	(718)	95	(1,021)
Financing cost relating to long term debt	60	334	1,021	617
Others	118	661	487	632
	867	*4,827*	*2,511*	*2,193*

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Financing cost relating to bonds	956	5,320	3,333	2,361
Loss (profit) from marketable securities, net	(138)	(770)	(2,425)	(396)
Loss (gain) on cash and cash equivalents and bank deposits	(129)	(718)	95	(1,021)
Financing cost relating to long term debt	60	334	1,021	617
Others	72	401	270	712
	821	*4,567*	*2,294*	*2,273*

Note 20 - 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,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Salaries and related benefits (*)	312	1,736	2,177	1,513
Directors' remuneration (**)	15	84	107	66
Rental expenses	77	427	255	53

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Sales revenues	1,653	9,200	6,680	4,113
Salaries and related benefits (*)	312	1,736	2,177	1,513
Directors' remuneration (**)	15	84	107	66
Rental expenses	77	427	255	53
General and administrative	95	530	439	351
Financing revenue (expenses)	-	-	312	(151)
(*) 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 The annual general meeting of the Company's shareholders (the "**AGM**") has approved the indemnification and exemption of the Company's Office Holders as may be appointed from time to time, and/or those serving in Other Companies (excluding Office Holders which are Controlling Shareholders of the Company) pursuant to the provisions of the Indemnity Letter and the granting of Indemnity Letters to such Office Holders.
In addition, the AGM has approved the indemnification and exemption of Mr. Haim Shani and Mrs. Bareket Shani, the Controlling Shareholder in the Company and his wife, pursuant to the provisions of the Indemnity Letter and the granting of Indemnity Letters to Messrs. Shani.

Note 20 - Statements of Operations Data (cont'd)

G. Transactions with interested and related parties

4. 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.

5. The company granted options to an external director. See also Note 19B.

6. 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 21 - 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.

4. The base year for the tax benefits period under the first program is 1999, and under the second program is 2004. No tax benefits have been used under both programs.

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,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Deferred taxes	15	85	35	32
Taxes on income	-	-	2	40
	15	*85*	*37*	*72*

Note 21- 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,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Deferred taxes	*15*	*85*	*35*	*32*

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,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Profit (loss) before taxes on income	398	2,208	661	2,951
Tax rate (%)	31	31	34	35
Theoretical tax	123	684	225	1,033
Increase in taxes resulting from non-deductible expenses	30	168	104	99
Temporary differences where deferred taxes were not recognized	(185)	(1,028)	(443)	(1,005)
Additional tax in respect of other differences	47	261	151	(55)
	15	*85*	*37*	*72*

Note 21 - Taxes on Income (cont'd)

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Profit (loss) before taxes on income	543	3,019	1,904	3,537
Tax rate (%)	31	31	34	35
Theoretical tax	168	936	647	1,238
Increase in taxes resulting from non-deductible expenses	30	168	104	99
Temporary differences where deferred taxes were not recognized	(230)	(1,278)	(867)	(1,250)
Additional tax in respect of other differences	47	259	151	(55)
	15	*85*	*35*	*32*

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,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Balance beginning of year	15	85	120	152
Changes during the year	(15)	(85)	(35)	(32)
Balance end of year	-	-	*85*	*120*

2. Balances:

Unitronics (1989) (R"G) Ltd. Consolidated and company	*December 31, 2006*	*December 31, 2006*	*December 31, 2005*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
<u>Other assets</u>			
Accrued severance pay, net	-	-	336
<u>Long term liabilities</u>			
Depreciation of buildings	-	-	(251)
	-	-	*85*

Note 21 - Taxes on Income (cont'd)

H. Final tax assessments
The Company has final tax assessments for all years up to December 31, 2002.

I. Tax loss carry forward
As at December 31, 2006 the company's tax loss carry forward where deferred taxes were not recognized, amounts to approximately NIS 25,000 thousands (EURO 4,493 thousands).

Note 22 - 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,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Products	9,653	53,711	37,201	29,883
System integration projects	7,255	40,370	42,862	31,263
Other	126	700	711	625
	17,034	*94,781*	*80,774*	*61,771*

Note 22 - Business and geographical segments (cont'd)

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

B. Segment results and adjustment to the profit

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Products	3,132	17,427	10,498	9,241
System integration projects	763	4,247	4,591	4,934
Other	10	57	73	114
Unallocated corporate expenses	(2,645)	(14,719)	(11,990)	(9,193)
Operating profit	1,260	7,012	3,172	5,096
Unallocated corporate financing expenses, net	(867)	(4,827)	(2,511)	(2,193)
Other income, net	4	23	-	48
Taxes on income	(15)	(85)	(37)	(72)
Profit for the year	*382*	*2,123*	*624*	*2,879*

C. Segment assets

Unitronics (1989) (R"G) Ltd. Consolidated	*December 31, 2006*	*December 31, 2006*	*December 31, 2005*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Products	3,617	20,120	14,450
System integration projects	2,106	11,721	7,186
Other	48	269	243
Unallocated corporate assets	16,424	91,392	75,860
Consolidated total assets	*22,195*	*123,502*	*97,739*

Note 22 - 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, 2006*	*December 31, 2006*	*December 31, 2005*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Products	875	4,867	8,708
System integration projects	2,800	15,580	14,424
Other	38	215	219
Unallocated corporate liabilities	14,631	81,410	53,723
Consolidated total liabilities	*18,344*	*102,072*	*77,074*

E. Capital expenditure

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Products	104	577	395	525
System integration projects	95	526	324	446
Unallocated capital Expenditure	136	762	1,012	3,375
Consolidated total capital expenditure	*335*	*1,865*	*1,731*	*4,346*

F. Depreciation and amortization

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Products	56	309	226	152
System integration projects	47	263	186	151
Unallocated depreciation and amortization	209	1,163	2,592	1,796
Total depreciation and amortization	*312*	*1,735*	*3,004*	*2,099*

Note 22 - 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,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Israel	7,243	40,305	45,972	34,149
Europe (*)	5,472	30,449	18,275	16,673
America	3,581	19,924	12,919	8,250
Other destinations	738	4,103	3,608	2,699
	17,034	*94,781*	*80,774*	*61,771*

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

B. Segment assets

Unitronics (1989) (R"G) Ltd. Consolidated	*December 31, 2006*	*December 31, 2006*	*December 31, 2005*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	
Israel	1,741	9,688	7,819
Europe	338	1,881	872
America	995	5,531	3,047
Other destinations	25	137	43
Unallocated corporate assets	19,096	106,285	85,958
Consolidated total assets	*22,195*	*123,502*	*97,739*

C. Capital expenditure

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
America	8	46	61	153
Unallocated capital expenditure	327	1,819	1,670	4,193
Consolidated total capital expenditure	*335*	*1,865*	*1,731*	*4,346*

Note 23 - Profit per share

Unitronics (1989) (R"G) Ltd. **Consolidated and company**	*For the year ended December 31*	*For the year ended December 31,*		
	2006	*2006*	*2005*	*2004*
	(in thousands)			
	Convenience translation into EURO, (unaudited)	**Reported NIS**		
Profit for the period				
Basic and Fully diluted	382	2,123	624	2,879
Weighted average share capital (number of shares)				
Basic and Fully diluted	11,492,170	11,492,170	11,652,622	11,343,213

Note 24 - Financial Instruments and risk management

A. Financial Risk factors

The Company's operations expose it to various financial risks such as market risks (including currency risks, fair value risks relating to the rate of interest and price risks) credit risks, liquidity risks and cash flow risks relating to the rate of interest. The program for managing the Company's risks focuses on actions to reduce to a minimum the negative possible effects of the Group's financial transactions.

Managing risks is carried out by the Company's management under the supervision of its Board of Directors.

1. Credit Risks

As at December 31, 2006 the company (consolidated) had trade account receivables and other account receivables amounting to approximatly NIS 16,446 thousands. The company does not predict material credit risks in respect of trade account receivables and other account receivables.

2. Curency and Index risks

a. Most of the engagements that the Group had in the field of the systems, are generally linked to the US dollar or the euro. In addition a considerable part of the Group's sales in the field of products are dominated or linked to the US dollar or the euro. Changes in the rates of exchange of the dollar against the shekel and of the euro against the shekel, mainly during the period between the signing of the agreements and payment for them, are likely to create an exposure for the Group.

b. Some of the engagements and payments that the Group makes with sub-contractors and suppliers, are denominated or linked to the US dollar or to the euro. Therefore, changes in the rates of exchange of the dollar against the shekel and of the euro against the shekel are likely to create an exposure for the Group.
It should also be stated that there is a certain protection in that in the field of systems the Company's policy is linkage of contracts with sub-contractors to the currency in which the engagement with the customer is linked.

c. The Company has convertible bonds linked to the dollar and bonds linked to the index for large amounts, and therefore changes in the rates of exchange of the dollar and changes in the consumer price index are likely to create an exposure for the Company.

Note 24 - Financial Instruments and risk management (cont'd)

3. Interest risks

The Group has loans denominated in dollars and euros, with variable interest in a spread from Libor.

Changes in the rates of interest are likely to affect the Group's business results.

The Company has liquid balances, which are deposited in unlinked shekel balances, bearing interest, and therefore the Company is exposed to changes in the shekel rates of interest which are likely to affect the Company's business results.

B. Interest rates risk

The following table presents the book value of the Group's financial instruments, which are exposed to fair value risk and/or cash flow risk for interest rates, according to the contractual maturity dates or the re-determined dates of price, whichever earlier:

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

	1th year	2th year	3th year	4th year	5th year	6th year and after	No maturity date	Effective interest rate	Total
					Reported NIS, (in thousands)				
Financial assets:									
Cash and cash equivalents	26,003	-	-	-	-	-	-	4.95%	26,003
Marketable securities	30,390	-	-	-	-	-	-		30,390
Financial liabilities:									
Long term bank debts -									
Linked to the USD	461	461	461	461	461	2,767	-	Libor + 2.02%	5,072
Linked to the Euro	513	513	513	513	513	3,085	-	Libor + 2.02%	5,650
Motor vehicles lessors -									
Linked to the Israeli CPI	136	126	104	-	-	-	-	5.73% - 8.5%	366
Bonds:									
Convertible bonds linked to the USD	8,750	8,750	8,750	8,750	-	-	-	Libor + 3.53%	35,000
Convertible bonds linked to the Euro	1,860	1,943	-	-	-	-	-	8.13%	3,803
Bonds linked to the Israeli CPI	-	-	6,800	6,800	6,800	13,600	-	9.57%	34,000
	44,673	(11,793)	(16,628)	(16,524)	(7,774)	(19,452)	-		(27,498)

(*) Assets / Liabilities bear fixed interest.
(*) Assets / Liabilities bear verible interest.

Note 24 - Financial Instruments and risk management (cont'd)

C. Fair value

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

	Book value		Fair value	
	December 31,		December 31,	
	2006	2005	2006	2005
	Reported NIS, (in thousands)			
Financial assets:				
Cash and cash equivalents (2)	26,003	577	26,003	577
Marketeble securities (2)	30,390	33,363	30,390	33,363
Financial Liabilities:				
Long term bank debts -				
Linked to the USD (verible interest) (2)	(5,072)	(5,524)	(5,072)	(5,524)
Linked to the Euro (verible interest) (2)	(5,650)	(5,528)	(5,650)	(5,528)
Motor vehicles lessors -				
Linked to the Israeli CPI (fixed interest) (2)	(366)	(517)	(366)	(517)
Convertible bonds linked to the USD (1)	(32,232)	(33,909)	(34,650)	(35,210)
Convertible bonds linked to the Euro (1)	(3,709)	(4,548)	(1,950)	(4,085)
Convertible bonds linked to the the Israeli CPI (1)	(29,859)	-	(33,218)	-
	(20,495)	(16,086)	(24,513)	(16,924)

(1) The fair value is based on quated prices at active market as of the balance sheet date.
(2) The book value is approximation to the fair value.

Note 24 - Financial Instruments and risk management (cont'd)

D. Monetary Assets and Liabilities Classified by Linkage Basis

Unitronics (1989) (R"G) Ltd. Consolidated	**December 31, 2006**					
	Israeli currency		Other currencies			
	Not linked	Linked to the Israeli CPI	Other currencies	US dollars	Euro	Total
Reported NIS, (audited), (in thousands)						
Current assets	42,231	16,109	-	17,964	10,181	86,485
Current liabilities	(19,563)	(136)	(11)	(10,213)	(5,335)	(35,058)
Long-term liabilities	(1,628)	(30,089)	-	(28,093)	(6,986)	(66,796)
	21,040	*(14,116)*	*(11)*	*(20,342)*	*(2,140)*	*(15,369)*
Convenience translation into EURO, (unaudited), (in thousands)						
Current assets	7,590	2,895	-	3,228	1,830	15,543
Current liabilities	(3,516)	(24)	(2)	(1,835)	(959)	(6,336)
Long-term liabilities	(293)	(5,408)	-	(5,049)	(1,256)	(12,006)
	3,781	*(2,537)*	*(2)*	*(3,656)*	*(385)*	*(2,799)*

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)*

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 25 - 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, 2006	***December 31, 2006***	***December 31, 2005***
		(in thousands)	
Cash and cash equivalents	7,056	39,267	16,845
Marketable securities	5,462	30,390	33,363
Bank deposit			
Accounts receivable -			
Trade	2,404	13,375	8,500
Other	1,357	7,549	6,862
Inventory	2,346	13,054	9,223
Inventory - work in progress	77	429	-
Current assets	*18,702*	*104,064*	*74,793*
Long-term deposits	*61*	*339*	*201*
Investment in subsidiaries	*10*	*55*	*80*
Property and equipment	*4,067*	*22,628*	*22,534*
Other assets	*33*	*186*	*3,272*
Total assets	***22,873***	***127,272***	***100,880***
Credit from banks and others	2,106	11,720	1,103
Accounts payable -			
Trade	2,139	11,897	12,937
Other	1,967	10,947	11,953
Current liabilities	*6,212*	34,564	25,993
Long-term debt	1,793	9,978	11,411
Convertible bonds	4,552	25,331	37,512
Bonds	5,366	29,859	-
Provision for loss of subsidiaries	766	4,260	3,474
Accrued severance pay, net	293	1,628	1,346
Deferred taxes	-	-	239
Long-term liabilities	12,770	*71,056*	*53,982*
Shareholders' equity	*3,891*	*21,652*	*20,905*
Total liabilities and shareholders' equity	***22,873***	***127,272***	***100,880***

Note 25 - 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,*		
	2006	*2006*	*2005*	*2004*
		(in thousands)		
Revenues	16,306	90,734	77,495	59,689
Cost of revenues	11,025	61,351	55,235	39,937
Gross profit	*5,281*	*29,383*	*22,260*	*19,752*
Research & development expenses, net	1,531	8,521	5,753	4,286
Selling & marketing expenses	1,417	7,884	6,849	6,296
General & administrative expenses	975	5,421	5,466	3,405
Operating profit	*1,358*	*7,557*	*4,192*	*5,765*
Financing expenses, net	820	4,566	2,296	2,281
Operating profit after financing expenses, net	*538*	*2,991*	*1,896*	*3,484*
Other income, net	4	23	-	45
Profit before taxes on income	*542*	*3,014*	*1,896*	*3,529*
Taxes on income	18	98	27	26
Profit after taxes on income	*524*	*2,916*	*1,869*	*3,503*
The Company's share of subsidiaries losses	145	811	1,245	626
Profit for the year	*379*	*2,105*	*624*	*2,877*

Note 25 - 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	*Capital reserves*	*Share premium*	*Receipts on account of warrants*	*Company shares held by the company*	*Accumulated loss*	*Total*
	(in thousands)						
Balance at January 1, 2004	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*
Purchase of company shares by the company	-	-	-	-	(2,066)	-	(2,066)
Split of conversion option from convertible bonds, net	-	-	-	235	-	-	235
Benefit arising from warrants granted	-	11	-	-	-	-	11
Receipts on account of warrants	-	-	-	462	-	-	462
Profit for the year	-	-	-	-	-	2,105	2,105
Balance at December 31, 2006	*234*	*11*	*46,788*	*1,373*	*(2,640)*	*(24,114)*	*21,652*

	Convenience translation into EURO, (unaudited)						
	Share Capital	*Capital reserves*	*Share premium*	*Receipts on account of warrants*	*Company shares held by the company*	*Accumulated loss*	*Total*
	(in thousands)						
Balance at January 1, 2006	41	-	8,409	122	(103)	(4,713)	3,756
Purchase of company shares by the company	-	-	-	-	(371)	-	(371)
Split of conversion option from convertible bonds, net	-	-	-	42	-	-	42
Benefit arising from warrants granted	-	2	-	-	-	-	2
Receipts on account of warrants	-	-	-	83	-	-	83
Profit for the year	-	-	-	-	-	379	379
Balance at December 31, 2006	*41*	*2*	*8,409*	*247*	*(474)*	*(4,334)*	*3,891*

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

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

On May 19, 2004, pursuant to the 2004 prospectus, the Company raised a net amount (less issuance expenses) of approx. NIS 34 million 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), convertible into Ordinary Shares.

The proceeds of the offering were designated, pursuant to the 2004 prospectus, for financing the Company's operations, as the Company's Board of Directors would decide from time to time. In addition, in the 2004 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 1.12.1 hereinabove). The debit balance of the Company in respect of the aforementioned loans and credits as of December 29, 2006, amounted to approx. NIS 11,345,000 (eleven million three hundred forty five thousand New Israeli Shekels) (for additional details about these loans and credits, see Section 1.16.2 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 2004 prospectus for the repayment of said loans and credits (for additional details, see Section 1.16.2).

The Company raised, under the 2006 Prospectus dated August 16, 2006, a net amount (less issuance expenses) of approx. NIS 30 million in respect of the allotment of 100,000 units comprising NIS 34 million par value bonds (Series 2) and 600,000 option instruments (Series 2), convertible into Ordinary Shares

The proceeds of the offering were designated, pursuant to the 2006 prospectus, for financing the Company's operations, as the Company's Board of Directors would decide from time to time.

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 - NIS 1	1,000	NIS000ת1
Unitronics Inc. (foreign company)	Ordinary - US $0.01	1,000	US $10

Subsidiary	Book Cost	Book Value	Share of Company's holdings in equity, voting and in power to appoint directors out of the total issued shares
	NIS in thousands		
Unitronics House Management and Maintenance (2003) Ltd.	1	55	100%
Unitronics Inc. (foreign company)	***0**	(4,255)	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 2006:

Subsidiary	Profit (Loss) Before Tax	Profit (Loss) After Tax	Dividend	Management Fees	Interest Revenues
NIS in thousands					NIS in thousands
Unitronics House Management and Maintenance (2003) Ltd.	(25)	(25)	-	-	-
Unitronics Inc.	(777)	(777)	-	-	-

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

4.5 List of Loans (Reg. 14)

Not applicable (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, 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 that Stock Exchange under the 2004 Prospectus.

As of 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 a total of 552,425 dormant shares; these dormant shares do not carry any rights for the Company (including no voting rights and/or rights to capital). (For details see section 1.4.7 above and section 4.9 below).

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 effect 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. Commencing 2001, Leleux Associated Brokers S.A. (hereinafter, "**Leleux**") has been serving in this position, in accordance with the Liquidity and Market Making Agreement between the Company and Leleux. In accordance with the agreement, Leleux undertook to take all measures required of a market maker, pursuant to any law, including for the purpose of guaranteeing the frequency and liquidity of the trading in the Company's shares in accordance with the requirements of the Belgian Stock Exchange. For the purpose of compliance with this undertaking and in accordance with the requirements applicable to the Company as a company whose shares are traded on the Belgian Stock Exchange, the Company is required to make available to Leleux 50,000 of the Company's shares, and also the ability to make use of the amount of Euro 50,000, all for the purpose of buying and selling the Company's shares, in the course of the performance of Leleux's duties as a market maker. The required amount of the shares, as stated above, was provided to Leleux by Mr. Haim Shani and Mrs. Bareket Shani (who was also, at that time, a shareholder of the Company), interested parties of the Company (and are included in the count of the holdings of Mr. Shani, as set forth in Section 4.9 below). In accordance with the agreement, Leleux is required to return these shares to Mr. and Mrs. Shani, and to return to the Company the abovementioned amount, in cash, within six months from the expiration of the agreement. The agreement is for an unlimited period of time, and may be cancelled by mutual consent and with the approval of the stock exchange authorities in Belgium, and Leleux is required to continue to perform its duties as market maker, until the appointment of a replacement market maker.

In August 2006 the Company published a prospectus in Israel under which the Company listed for trading on the Tel Aviv stock exchange its convertible bonds (Series 2) and option instruments (Series 2) (see section 1.4.10 above).

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 benefits NIS in thousands	Supplemental Payments
CEO and Chairman of the Board of Directors	1,127	See Section 1.14.4 hereinabove
Deputy CEO and Products Department Manager	1,100	See Section 1.14.4 hereinabove
Deputy CEO and Human Resources Manager	609	See Section 1.14.4 hereinabove
Project Engineering Manager	597	
Development Department Manager	537	

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 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 calculated for every year (non cumulatively) without regard to losses and shall 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 25, 2007 the Audit Committee and the Board of Directors approved the payment of a bonus in the amount of NIS 155 thousand to Mr. Haim Shani in respect of 2005 in accordance with the conditions of the above Framework Transaction (for additional details, see the Immediate Report dated March 25, 2007).

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 "**Total 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 division of the Overall Salary among the Company and Unitronics Inc. shall be effected in a manner whereby there will be no additional salary cost to the Company (on a consolidated basis with Unitronics Inc.) as compared to the salary cost to the Company without such division.
Since the above division of Mr. Shani's salary allows diversion of part of the management resources to US markets in order to contribute to development and growth of Company business activity in such markets and also allows Mr. Haim Shani to be involved with and present at subsidiary activities in a manner that does not entail additional salary costs to the Company (compared to employment of any third party in the position above), the Audit Committee and the Board of Directors have determined that the amendment may only benefit the Company.

4.8 Salary 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 1,820 thousand (including supplemental payments), according to the following breakdown:

Interested Party	**Paid By Balance Sheet Date NIS in thousands**
Haim Shani	1,127
Bareket Shani	609
Other directors	84

4.8.2 As per decision made by the Audit Committee and the Company's board of directors on May 2003, Unitronics House Management and Maintenance (2003) Ltd. ("**Unitronics Management**"), a fully-owned subsidiary of the Company, provides management and maintenance services for the Unitronics floors. These services include, primarily, service for elevators and air conditioning, electrical and fire detection systems at Unitronics House (contacting various contractors in case of malfunction and/or for servicing and/or periodic tests, as per manufacturer's instructions) as well as provision of cleaning, pest control, gardening and security services (via subcontractors). In return for these services, Unitronics Management charges monthly management fees at a rate of about $2.0 per square meter of each tenant's space at Unitronics House, and in addition charges separately for electricity consumption according to readings of separate meters for Unitronics and for other tenants at Unitronics House (who share the expense, pro-rated to the area used by each tenant).

Unitronics Management also provides such management and maintenance services to the private floors at Unitronics House, leased by a company fully owned by Messrs. Haim Shani and Bareket Shani. There is no written contract between Unitronics, Unitronics Management and Messrs. Shani with regard to the management services. In actual fact, Messrs. Shani obligate the tenants leasing the Private Floors (including the Company) to pay the full management fee charged by Unitronics Management, and said tenants pay Unitronics Management directly for management services at the same rate per square meter paid by Unitronics (other than for consumption of electricity, where each tenant is charges according to his own separate meter).

For these services, Unitronics Management was paid in total NIS 977 thousand, NIS 1,149 thousand and NIS 1,230 thousand for the years 2004, 2005 and 2006, respectively; of which NIS 351 thousand, NIS 439 thousand and NIS 530 thousand, respectively by the Company and NIS 626 thousand, NIS 710 thousand and NIS 700 thousand by third parties.

4.8.3 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 1.12.2 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 1.12.2 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. Among others, the Audit Committee and the Company's Board of Directors have relied on Company-conducted checks indicating that rental terms under which the additional area would be rented are similar to terms under which areas owned by the lessor at Unitronics House are rented to third parties, which are unaffiliated with the Company or with its controlling shareholders, and also reflect rental terms (price / duration) which are prevalent at Airport City in general for areas of similar and/or inferior finish quality and which offer similar and/or inferior general services. The Company paid to the Lessor for the year 2006 in respect of leasing the aggregate premises under lease in the Private Floors of Unitronics House an aggregate amount of NIS 427 thousand. On March 25, 2007, the Company's Audit Committee and Board of Directors approved the exercise of the above option to extend the lease for an additional 12 month period (see Immediate Report on this matter dated March 26, 2007).4.8.4 Furthermore, under an oral agreement (not limited by duration) between the Company and Mr. Albert Sharabani (the father of Mr. Haim Shani) dating to the time prior to the Company becoming publicly traded, the Company engages Mr. Albert Sharabani's services for various administrative tasks (primarily courier services by car) in consideration of a monthly fee of a non-material amount, whose cost to the Company amounted, in 2006, to about NIS 38 thousand.

4.8.5 According to decision by the Audit Committee and the Company's Board of Directors, approved by the Annual General Meeting of Company Shareholders on August 9, 2001, 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.

4.8.6 The Company granted options for purchase of 10,000 Company shares under the 1999 Option Plan to each of Messrs. Haim Shani, Bareket Shani and Zvi Livneh (current directors) as well as to two ex-members of the Company's board of directors. These options may be exercised for Company Ordinary Shares through June 2007 at an exercise price of €1.00 per share. Furthermore, 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 Audit Committee and the Company's Board of Directors confirmed the above option grant, and pursuant to approval by the General Meeting of Company shareholders on May 9, 2006, the Company's Board of Directors allotted on May 18, 2006 the options to Mr. Ron Mishael under provisions of Section 102 of the Israeli Internal Revenue Ordinance [New Version] and the Company's 2003 Option Plan (for details see section 4.10.3c above). These options may be exercised for Company Ordinary Shares through May 2009, at an exercise price of €1.00 per share, with the remainder of the terms being similar in essence to terms under which stock options had been granted to other directors of the Company under the Company's 1999 Option Plan subject to adjustments and amendments made to adapt them to effective amendments introduced in Section 102 of the Israeli Internal Revenue Ordinance after allocation of options to the other directors of the Company (for further details regarding the terms of the options, see immediate report of December 15, 2005).

4.8.7 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. The cost of this insurance coverage to the Company is about $11.2 thousand (about NIS 48 thousand). On March 25, 2007 the Audit Committee and the Company's Board of Directors approved renewal of the policy under the terms of the framework transaction (for details, see immediate report of March 25, 2007).

4.8.8 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, 2005 and 2006, see Section 4.7.2. hereinabove).

4.8.9 On May 9, 2006 the Annual General Meeting of Company shareholders approved, following approval by the Audit Committee and the Company's Board of Directors, an amendment to the chapter "Indemnity and Insurance of Office Holders" of the Company's Articles of Association (section 109 thereof) in order to allow for indemnification, insurance and exemption of office holders to the maximum degree allowed under the Companies Law (for details see section 4.14 below) as well as: (a) indemnification and exemption of current office holders in the Company and/or in Another Company from time to time (except for office holders who are controlling shareholders of the Company), as per the provisions of the Indemnification Document attached as Appendix B to the report on a transaction with a controlling shareholder published on March 27, 2006 (hereinafter: the "**Indemnification Document**"), and to issue the Indemnification Document to such office holders; and (b) approval of indemnification and exemption to Mr. Haim Shani and Ms. Bareket Shani, the controlling shareholder in the Company and his wife, according to provisions of the Indemnification Document, and to issue the Indemnification Document to Mr. Haim Shani and to Ms. Bareket Shani.

Pursuant to the above decisions, the Company issued on May 18, 2006 Indemnification Documents as per the above to office holders in the Company, including to Messrs. Haim Shani and Bareket Shani, the controlling shareholder in the Company and his wife. On March 25, 2007 the Company issued a further Indemnification Document as per the above to Mr. Moshe Baraz, who started his office as an external director of the Company as of December 8, 2006.

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 of the date of the report:

In the Company:

Name of Holder	**Ordinary Shares**	**Option instruments (Series 1)**	**Options (non-negotiable)**	**Share of issued capital**	**Share of votes**	**Share of issued capital**	**Share of votes**
				Non-diluted		**Fully diluted**	
Haim Shani [34 2]	6,092,551	200,000	10,000	54.77%	58.36%	35.83%	38.10
Unitronics	552,425			0	0	0	0

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[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 shareholder registry as the owner of the shares; to the best of the company's knowledge, according to practice in Belgium and to CIK regulations, this entity serves as registry and clearing house in Belgium, with shares of companies traded on the stock exchange in Belgium deposited with it subject to a global power of attorney, and various trading transactions in shares made by banks, brokers and other authorized persons on the stock exchange are recorded in its books. Thus CIK fulfills a role essentially similar to that of registry companies in Israel, facilitating recording of company shares traded on the stock exchange in Belgium; shareholders who purchase company shares on the stock exchange in Belgium transact the buying (or selling) via a securities account managed in their name at financial institutions (brokers, banks etc.) who are, directly or indirectly, members of the CIK system. The Company is unaware of other interested parties other than those listed above.

[3] In addition to shares directly or indirectly held by him as set forth above, Mr. Haim Shani also holds an irrevocable power of attorney (under a contract signed by him and by his brothers, Messrs. Tzadok and Alon Shani on March 18, 2002) to participate in meetings of Company shareholders and to vote 399,999 Ordinary Shares of the Company on behalf of his brothers at his sole discretion on any matter except for changes to rights associated with such shares in the Company's articles of association. The power of attorney shall expire in case of a decrease of 90% or more in holdings of Messrs. Tzadok and Alon Shani in these shares and/or when Mr. Haim Shani should no longer be a controlling shareholder of the Company.

[4] In addition to shares, Mr. Shani holds options to purchase 10,000 Company shares under the Company's 1999 Option Plan (see section 4.10.3a below). Furthermore, under his employment contract, Mr. Shani is entitled to additional options (see section 1.14.4a above). The grant of further options to Mr. Shani is subject to all required legal approvals, including approval of the Tel-Aviv stock exchange for listing for trading the shares underlying such options. Furthermore, in addition to employee options, Mr. Shani holds 200,000 option instruments (Series 1) acquired via a transaction outside the stock exchange from two underwriters of the 2004 prospectus.

(1989) (R"G) Ltd. *							
Bareket Shani[5]	0		10,000	0	0	0.04%	0.04%
Zvi Livneh[6]	0	0	10,000	0	0	0.04%	0.04%
Ron Mishael[7]	0	0	10,000	0	0	0.04%	0.04%

* Buy-back of 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 of December 31, 2006, the Company holds a total of 552,425 shares purchased as aforementioned (out of 11,676,546 Ordinary Shares in the Company's issued capital). These purchases were made for a total sum of approx. NIS 2.6 million 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. For details see section 1.4.7 above.

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 registered capital is NIS 233,530.92, divided into 11,676,546 Ordinary Shares having a par value of NIS 0.02 each. The Company holds a total of 552,425 dormant shares; these dormant shares do not carry any rights for the Company (including no voting rights and/or rights to capital).

4.10.2 Convertible Securities - Overview

Company capital includes convertible securities as follows:

(a) NIS 35,000,000 par value of bonds (Series 1) with terms as set forth in section 1.19.4 above, listed for trading on the Tel Aviv Stock Exchange.

(b) Bonds (Series 2) with terms as set forth in section 1.19.5 above, listed for trading on the Tel Aviv Stock Exchange.

5 Ms. Bareket Shani, wife of Mr. Haim Shani, who serves as a director of the Company and as Deputy CEO and Human Resources Manager, holds options to purchase 10,000 Company shares under the Company's 1999 Option Plan (see section 4.10.3a below). Furthermore, under her employment contract, Ms. Shani is entitled to additional options (see section 1.14.4a above). The grant of further options to Ms. Shani is subject to all required legal approvals, including approval of the Tel-Aviv stock exchange for listing for trade of the shares underlying such options.

6 Mr. Zvi Livneh, who serves as a director of the Company, holds options to purchase 10,000 Company shares under the Company's 1999 Option Plan (see section 4.10.3a below).

7 Mr. Ron Mishael, who serves as an external director of the Company, holds options to purchase 10,000 Company shares under the Company's 2003 Option Plan (see section 4.10.3c below).

(c) 1,300,000 option instruments (Series 1), registered to the holder's name, exercisable for Ordinary Shares on any trading day up to May 23, 2008 (inclusive), such that each option instrument (Series 1) may be exercised for 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.

(d) 600,000 option instruments (Series 2), registered to the holder's name, exercisable for Ordinary Shares on any trading day up to August 24, 2010 (inclusive), except on the 12^{th} to 16^{th} day of each month in said period, such that each option instrument (Series 2) may be exercised for one Ordinary Share of the Company, against cash payment of the exercise price of NIS 5.00, linked to the Consumer Price Index, but no less than NIS 5.

(e) Bonds with terms as detailed in section 1.4.2 above, not listed for trading on the stock exchange and convertible to 125,631 Ordinary Shares of the Company.

(f) 1,302,000 options granted under Option Plans whose terms are listed in section 4.10.3 below, not listed for trading on the 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 herein below), the main terms of which are as follows:

(a) 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 grantee'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.

As of the date of this report, options have been granted to purchase a total of 435,250 Ordinary Shares of the Company under the 1999 Option Plan. Options to purchase a total of 288,000 Ordinary Shares of the Company have been granted to Company employees and have expired in December 2004, unexercised under their terms. Options to purchase a total of 35,000 shares granted under the 1999 Plan to an office holder who is not an interested party, exercisable for ordinary shares of the Company through June 2007 at an exercise price of €0.82 per share. Options to purchase a total of 50,000 shares granted under the 1999 Plan to five directors of the Company (one of whom has since completed his term on the Company's Board of Directors), 10,000 to each (including to Mr. Haim Shani and Ms. Bareket Shani). These options may be exercised for Company Ordinary Shares through June 2007 at an exercise price of €1.00 per share. Options to purchase a total of 62,250 Ordinary Shares of the Company have been granted under the 1999 Plan to Company legal advisors and have expired unexercised in October 2005, under their terms (see further details in section 4.10.4 below).

As for options to purchase 4,750 Company shares under the 1999 Option Plan not yet granted as of the report date, and as for options expired or about to expire unexercised under their terms and are to become available once more for grant under the program, the Company sought and received no approval of the stock exchange for listing such shares for trading. The grant of such options is subject to all required legal approvals, including approval of the Tel-Aviv stock exchange to list the shares underlying such options for trade.

(b) <u>2001 Option Plan</u>

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 of 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 445,499 shares expired pursuant to the terms thereof. Out of the total number originally granted, options to purchase a total of 376,500 Ordinary Shares of the Company have been granted to Company employees and office holders (who are not interested parties of the Company), exercisable for Company Ordinary Shares through June 2006 (these options have expired unexercised, pursuant to the terms thereof) and options to purchase 362,000 Ordinary Shares exercisable through June 2007, subject to a vesting period of 4 years (one third of options vesting after 2, 3 and 4 years from the date of grant, respectively) at an exercise price ranging from €0.91 to €2.70 per share (as of the date of the report, only options at an exercise price of €0.91 are still exercisable). Options to purchase a total of 54,999 shares have been granted under the 2001 Option Plan to several consultants to the Company, who are not interested parties of the Company, and have expired unexercised, pursuant to terms thereof, in March 2006 (see further details in section 4.10.4 below).

As for options to purchase 156,501 Company shares under the 2001 Option Plan not yet granted as of the report date, and as for options expired or about to expire unexercised under their terms and which are to become available once more for grant under the program, the Company sought and received no approval of the stock exchange for listing such shares for trading. The grant of such options is subject to all required legal approvals, including approval of the Tel-Aviv stock exchange to list the shares underlying such options for trade.

(c) <u>2003 Option Plan</u>

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 grantee), 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. Options cancelled or not exercised within the time frame specified for exercising them shall become available once more, and may be granted anew under the plan to employees of the Company and its subsidiaries who are not interested parties in the Company by virtue of their holdings, and also, subject to approval of the Tel Aviv Stock Exchange to list them for trading, to other grantees under this plan who are not such employees. The other terms of the 2003 Plan are essentially similar to the terms of the 1999 Plan.

As of the report date, options under the 2003 Plan to purchase 502,000 Ordinary Shares have been granted to employees who are not interested parties, of which options to purchase 276,000 shares have expired by the report date unexercised, pursuant to terms thereof. Unexpired options are exercisable for Company Ordinary Shares through January 2009, subject to a 4-year vesting period (one third of options vesting after 2, 3 and 4 years from the date of grant, respectively) at an exercise price pf €1.30 per share.

Out of the above 276,000 expired options, in May 2006 options to purchase 10,000 Ordinary Shares were granted to Mr. Ron Mishael who serves as an external director of the Company (for details see Section 4.8.5 above). These options are exercisable for Company Ordinary Shares through May 2009 at an exercise price of €1.00 per share, with no vesting period; the remaining options to purchase 498,000 shares have been transferred to a trustee on behalf of the Company, and are intended to be granted from time to time to employees who are not interested parties by virtue of their holdings in the Company and/or its subsidiaries, as per instructions of the Company's board of directors who shall also be authorized to determine and change upon each grant the exercise price, vesting period, exercise period and other terms of the option to apply to all options granted as aforementioned (see further details in section 4.10.4 below).

The remaining options to purchase 498,000 shares grantable under the 2003 Option Plan and exercisable for 498,000 shares have been transferred to a trustee on behalf of the Company, and are intended to be granted from time to time to employees who are not interested parties by virtue of their holdings in the Company and/or its subsidiaries, as per instructions of the Company's board of directors who shall also be authorized to determine and change upon each grant the exercise price, vesting period, exercise period and other terms of the option to apply to all options granted as aforementioned (see additional details in Section 4.10.4 below).

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 for issuance / exercise	Amount of shares underlying the securities allotted/ actually granted by report date	Date of allotment / issuance	Total shares underlying expired / paid-up securities by report date	Total shares receivable in the future for exercising options actually allotted / granted as of the report date (vested / non-vested)	Amount of shares vested as of the report date	Exercise price / conversion ratio	Expiration Date
Bonds (Series 1)[1]	3,888,889	0	19.5.04			3,888,889	9 bonds per share	9.5.2010
Option instruments (Series 1)[2]	1,300,000	0	19.5.04 22.6.04			1,300,000	NIS 7.55	23.5.2008
Option instruments (Series 2)[3]	600,000	0	27.8.06			600,000	NIS 5.00	28.8.2010
Bonds[4]	158,562	0	9.2.01	9,949		125,631	€4.73	7.8.08
1999 Plan[5]	440,000	288,000	2.12.99	288,000	0	0	€3.80	2.12.04
		35,000	1.7.02		35,000	35,000	€0.82	30.6.07
		62,250	31.10.00	62,250	0	0	€1.00	31.10.05
		50,000	1.7.02		50,000	50,000	€1.00	30.6.07
2001 Plan[6]	950,000	376,500	28.6.01	376,500	0	0	€2.70	28.6.06
		39,999	11.3.01	39,999	0	0	€4.73	11.3.06
		15,000	11.3.01	15,000	0	0	€4.75	11.3.06
		362,000	1.7.02	48,000	314,000	314,000	€0.91	30.6.07
2003 Plan[7]	1,000,000	387,000	22.1.04	171,000	72,006	143,994	1.30[8] Euro	22.1.09
		105,000	22.1.04	105,000	0	0	[9]€3.80	21.1.10
		10,000	18.6.06	0	10,000	10,000	[10]€1.00	31.5.09
		[11] 498,000				0	-	-
Total	8 ,337,451	1,730, 749		1,115,698	481,006	6,467,514		

1 For details see section 1.19.4 above.
2 For details see section 4.10.2 above.
3 For details see section 4.10.2 above.
4 For details see section 1.4.2 above.
5 For details see section 4.10.3a above.
6 For details see section 4.10.3b above.
7 For details see section 4.10.3c above.
8 The economic value of the option as of the grant date is about €0.383. Despite these options being granted prior to the 2004 Prospectus and due to difficulty in obtaining appropriate data from the stock exchange in Belgium, the economic value of the option was calculated using the Black-Scholes formula, based on a discount rate and standard deviation as per data of the Tel Aviv Stock Exchange, as follows: discount rate of 3% (discount rate for the Euro) and weekly standard deviation of 3.8%. We should note that these are indicative values only, due to use of data from the stock exchange in Israel (rather than data of the stock exchange in Belgium as set forth above); the total beneficial value of the options granted on the above date is €148,221.
9 The economic value of the option as of the grant date is about €0.425 (based on data from the Tel Aviv Stock Exchange as set forth above). The total beneficial value of the options granted on the above date is €44,625.
10 The economic value of the option as of the grant date is about €0.061 (based on data from the Tel Aviv Stock Exchange as set forth above). The total beneficial value of the options granted on the above date is €610.
11 Option under the 2003 Option Plan transferred to trustee as set forth in section 4.10.3c above.

4.11 Corporation's Directors (Reg. 26)

Details of 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[12] 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) 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,

[12] In connection with this matter see Section 4.16.7 below.

Bachelor of Business specializing in accounting from The College of Management Academic Studies Division; holds an accountant diploma; senior partner in the Mishael-Rozenerg CPA firm; financial advisor to privately held 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.

(e) (1) Moshe Baraz; (1a) 058263476; (2) 2/8/1963; (3) 73 Adulam, Shoham; (4) Israeli; (5) Director, Audit Committee member and Securities Committee member, has accounting and financial skills as well as professional qualifications; (6) Yes, has accounting and financial skills as well as professional qualifications; (7) No; (8) 8/12/2006; (9) Academic - B.Ed. from the College of Management. Served as VP, Finance at advertising firm Tamir Cohen Ltd. between 1999-2004. Serves as VP and CFO at Kfar Hamacabia since 2004, serves as director of Dagan management and holding Ltd.; (10) No; (11) No.

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, three directors with accounting and financial skills out of five members of the Board of Directors serve at the Company, namely Messrs. Zvi Livne, Ron Mishael (who have accountant degrees and currently serve as CPAs) and Moshe Baraz (who has an accountant degree and serves as VP, and CFO).

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) high school graduate and graduate of IDF MAMRAM training school; Since 1995 serves as the manager of Netium Ltd.; serves as a director and CEO 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) 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 Corporation's CPA (Reg. 27)

Amit Halfon, CPA - 16 Aba Hilel Street, Ramat Gan.

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

On May 9, 2006 the Annual General Meeting of Company shareholders approved, following approval by the Audit Committee and the Company's Board of Directors, an amendment to the chapter "Indemnity, exemption and Insurance of Office Holders" of the Company's Articles of Association. Subsequently, the Company may indemnify and exempt office holders in the Company and insure the liability of its office holders, as follows:

(a) Insurance

Subject to provisions of the Company Law, the Company may enter into a contract to insure the liability of its office holder, in whole or in part, for any of the following:

(1) Breach of duty of care to the Company or to another person arising from an act made in the course of being an office holder in the Company, provided that the duty of care was not breached with aforethought malice or frivolously, unless if made only by carelessness;

(2) Breach of fiduciary duty of an office holder to the Company, provided that the office holder acted in good faith and has reasonable cause to believe that the action would not harm the Company's best interests, all arising from an action taken in the course of being an office holder in the Company;

(3) Financial liability imposed by the office holder to benefit another person with regard to actions taken by him in the course of being an office holder in the Company;

(b) Exemption

(1) The Company may exempt in advance any of its office holders from their liability, in whole or in part, due to damage associated with breach of their duty of care to the Company, provided that the duty of care was not breached with aforethought malice or frivolously, unless if made only by carelessness.

(2) Despite the aforementioned in sub-section (b)(1) above, the Company may not exempt any directors of their liability to the Company due to breach of duty of care in a distribution.

(c) Indemnity:

(1) The Company may indemnify an office holder in the Company and/or in a subsidiary and/or affiliated company (as defined in the Securities Law, 5728-1968 (hereinafter: "**Another Company**") post-factum for any liability or expense as listed in sub-section (4) below, imposed upon him for an action he undertook in the course of being an office holder in the Company.

(2) The Company may indemnify an office holder in the Company and/or in **Another Company** in advance for such classes of events which the Board of Directors deems may be anticipated when committing to indemnify and which are limited to an amount or measure which the Board of Directors have deemed reasonable under the circumstances, for any liability or expense due to events listed in sub-section (4) below, imposed upon him for an action he undertook in the course of being an office holder in the Company.

(3) The commitment to indemnify shall list the events which the Board of Directors anticipates, in view of actual Company operations at the time of issuing the commitment, as well as the amount or measure which the Board has determined to be reasonable under the circumstances.

(4) "Liability or expense" as for sub-sections (1) and (2) are:

(a) Financial liability imposed on him to benefit another person by court ruling, including a ruling handed in settlement or arbitration and approved by the court, with regard to actions taken by him in the course of being an office holder in the Company.

(b) Reasonable legal expenses, including attorney fees, incurred by the office holder due to investigation or proceeding against him by an authorized entity, which ended with no indictment of him and with no financial liability imposed in lieu of criminal proceedings, or which ended with no indictment against him but with financial liability in lieu of criminal proceedings in an offense which does not require proof of criminal intent;
As for this section, end of proceedings with no indictment on the matter for which a criminal investigation had been started - means closure of the case as per section 62 of the Criminal Proceedings Law [Combined Version], 5742-1982 (in this sub-section - Criminal Proceedings Law), or delay in proceedings by the Attorney General under section 231 of the Criminal Proceedings Law;
"Financial liability in lieu of criminal proceedings" - financial liability imposed by law in lieu of criminal proceedings, including administrative fine under the Administrative Felony Law, 5746-1985, fine for felony defined as a finable felony under provisions of the Criminal Proceedings Law, financial sanction or ransom;

(c) Reasonable legal expenses, including attorney fees, incurred by an office holder or imposed upon him by a court of law in proceedings started against him by the Company and/or by Another Company or on its behalf or by any other person or in a criminal indictment from which he was deemed not guilty or in a criminal indictment in which he was convicted of a felony not requiring proof of criminal intent, all in conjunction with actions taken by him in the course of being an office holder in the Company and/or in Another Company.

(5) The amount of indemnity as per sub-sections (1) and (2) above for each action or event, as the case may be, shall 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.

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

On March 27, 2006 the Company's Board of Directors resolved, following approval of the Audit Committee on the same date, to convene a General Meeting of Company shareholders, so that it may ratify the decision by Company shareholders dated December 15, 2005 with regard to option grant to Mr. Ron Mishael as per section 1.4.8 above, as well as approve the modification of the chapter "Indemnity, exemption and Insurance of Office Holders" of the Company's Articles of Association, as set forth in section 4.14 above.

Resolutions of the Extraordinary General Meeting: On May 9, 2006 the General Meeting of Company shareholders ratified the re-appointment of Mr. Ron Mishael as external director for a second term and the option grant to Mr. Ron Mishael as per section 1.4.8 above, and also approved the modification of the chapter "Indemnity, exemption and Insurance of Office Holders" of the Company's Articles of Association, as set forth in section 4.14 above.

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:

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 On May 9, 2006 the General Meeting of Company shareholders approved, further to the approval by the Audit Committee and the Company's Board of Directors on March 27, 2006 of change to Company's Articles of Association with regard to exemption, insurance and indemnification of office holders in order to align them with provisions of Amendment no. 3 (dated March 17, 2005) of the Companies Law, 5759-1999; and 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 May 9, 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 lease 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$ 0.2 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.

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, 2005 and 2006, see Section 4.7.2 hereinabove).

4.16.6 Transaction with an office holder: On May 9, 2006 the General Meeting of Company share holders resolved to ratify the decision by the General Meeting of Company shareholders on December 15, 2005 to grant options to purchase 10,000 Company Ordinary Shares to Mr. Ron Mishael, who is an external director of the Company (for details see immediate report dated May 9, 2006).

4.16.7 Transaction with an office holder: On December 7, 2006 the General Meeting of Company shareholders decided NOT to approve extension of the term of Mr. Haim Shani, Company’s CEO, as Chairman of the Board of Directors for a further 3-year term.
Pursuant to the above, at this stage the Company’s CEO will continue to serve as Chairman of the Board of Directors as well only through the current approved term, ending on April 13, 2007.

March 25, 2007

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Unitronics (1989) (R"G) Ltd.

By:

Mr. Haim Shani, CEO and Chairman of the Board of Directors

Zvi Livneh, Director