



Headquarters
Unitronics (1989) (R"G) Ltd.
Unitronics Building, Airport City
P.O.B. 300, Ben Gurion Airport, Israel 70100
Tel: + 972 (3) 977 8888 Fax: + 972 (3) 977 8877

Unitronics (1989) (R"G) Ltd
Board of Directors Report
State of Affairs of the Company as of September 30, 2004

Honorable stockholders,

We hereby present the report of the board of directors as to the state of affairs of Unitronics (1989) (R"G) Ltd., as of September 30, 2004, as an attachment to the financial reports of the Company for that date, pursuant to the requirements of the Israeli Securities Regulations (Periodic and Immediate Reports – 1970).

Note: The Company's accounts are administered in NIS. All figures for all periods specified in this report were translated for convenience at the same exchange rate of the EUR against the NIS (New Israeli Shekel) as of September 30, 2004 (1 EUR = 5.5247 NIS).

A. Description of the Company and its business environment

Unitronics (1989) (R"G) LTD (hereinafter: "the Company") is engaged in design, development, production, marketing, and sale of industrial automation products, mainly programmable logic controllers (hereinafter: "controllers"). Controllers are computer based electronic products (hardware and software) which serve for control and supervision of industrial manufacturing, storage, retrieval and logistics systems and machines. The Company is also engaged in planning service, establishment service, and maintenance service in the framework of projects for mechanization, computerization and integration of computerized production and/or logistic systems, mainly automatic warehouses.

The products of the Company include series of programmable controllers (nano controllers, micro-controllers and small controllers) which integrate an operating panel as an integral part of the controller and advanced communication technologies including internet communication, intra-net and cellular telephone communication (on various communication networks such as CDPD, GPRS, CDMA, GSM and others). Integration of the communication capacities in controllers is intended to facilitate tracking, control and other supervision of systems and processes not only from this site in which the controller is installed (the production floor, the logistic warehouse and so forth), but also other sites in an organization, including management offices and also from beyond the organization premises.

The products of the Company and its services are marketed and sold through an internal marketing department of the Company, a network of more than 100 distributors spread across approximately fifty countries throughout Europe, Asia, South and Central America, North America and Africa and a wholly owned US subsidiary. The customers and/or the users of the products of the Company include, inter alia, manufacturers of industrial machines, OEM producers, production and industrial enterprises and also enterprises using automated storage, retrieval and logistic systems.

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

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

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

Securities Issued, and Registration for Trade

In May 12, 2004, the Company published in Israel a prospectus (the "**Israeli prospectus**") offering to the public units comprising of ordinary shares, convertible bonds (series 1) and option deeds (series 1). According to the Israeli prospectus, a total of 800,000 ordinary shares in nominal amount of NIS 0.02, NIS 35 million in nominal amount of convertible bonds (series 1), and 1,000,000 option deeds (series 1), were offered and issued.

The gross proceeds received by the Company in consideration for the securities offered under the Israeli prospectus amounted to approximately NIS 39,290 thousand (about EUR 7,304 thousand).

In June 2004, the Company issued an additional 300,000 option deeds (series 1) of the Company to three of the underwriters of the Israeli prospectus, for no consideration. These option deeds are identical in all respects to the option deeds (series 1) offered and issued according to the Israeli prospectus, and were also registered for trade on the Tel-Aviv Stock Exchange.

In July 2004, the Company published a prospectus in Belgium in order to register for trade 7,875,200 ordinary shares of the Company on the EuroNext stock exchange in Belgium. As of July 12, 2004, 800,000 ordinary shares of the Company are listed for trade in EuroNext Belgium (in addition to the 10,876,546 ordinary shares listed there until such time). An additional maximum amount of 7,075,200 shares of the Company that may result from conversion and/or exercise of option deeds (series 1) and convertible bonds (series 1) issued according to the Israeli prospectus, will be registered for trade in the EuroNext stock exchange at a later date to be determined in accordance with the exercise and/or conversion date of such securities and subject to a Company notice to the applicable Belgian authorities of such matter.

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Contract to Supply Automatic Warehouse and Conveying Systems to a Client in Israel

The Company executed an agreement dated July 15, 2004 (the "Agreement") with an Israeli client engaged in import, processing, production and marketing of metal materials and products (the "Client"), for the supply and installation of an automated logistic system which includes storage control apparatus and software, and an automatic conveying system for pallets and containers, to be installed at the Client's facility in Israel (the "Project"). Pursuant to the Agreement, the system to be installed in the Project will be based upon Unitronics' PLCs, other control software tools developed by Unitronics as well as other components and elements to be supplied and installed by certain sub-contractors, under Unitronics' supervision.

In accordance with the Agreement, in consideration the Client undertook to pay Unitronics a total aggregate amount, estimated on the date of this report at approximately 19 NIS million (approximately EUR 3.4 million), including V.A.T, in mile-stone linked installments and subject to certain work and equipment to be supplied under the Project, including by sub-contractors to be retained for providing certain services and components in the Project, under Unitronics' supervision. According to the Agreement, the Project is intended to be completed through the second quarter of 2005. The Agreement also provides that in order to secure its obligations under the Agreement, Unitronics will provide certain guaranties, which are to be released in portions according to the progress of the work on the Project. Pursuant to the Agreement Unitronics provided warranties for the components provided by it, within the framework of which Unitronics undertook to commence attendance to malfunctions within predefined timetables from notice. Upon conclusion of the warranty period the parties undertook to enter into a maintenance agreement in a form agreed upon between the parties.



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C. The Financial Status

Assets

The total assets according to the consolidated balance sheet of the Company as of September 30, 2004 amounted to approximately NIS 91,830 thousand (about EUR 16,622 thousand) as compared to approximately NIS 41,771 thousand (about EUR 7,561 thousand) as of December 31, 2003. This increase is mainly attributable to the increase in cash and cash equivalents, and in the accounts receivable (trade) item as specified below.

In the total of the cash, cash equivalents and marketable securities, an increase was registered from approximately NIS 7,075 thousand (about EUR 1,281 thousand) as of December 31, 2003 to approximately NIS 45,556 thousand (about EUR 8,246 thousand) as of September 30, 2004. This increase is mainly attributable to the capital increase performed by the Company in May 2004 by consummating a public offering of securities in Israel according to the Israeli prospectus.

In the accounts receivable (trade) item, an increase was registered from approximately NIS 4,914 thousand (about EUR 889 thousand) as of December 31, 2003 to approximately NIS 11,440 thousand (about EUR 2,070 thousand) as of September 30, 2004. This increase is mainly attributable to the growth in the accounts receivable from the Company's systems' activities resulting from performance of existing projects as well as commencing new projects during the nine months period from the beginning of year 2004.

Other assets as of September 30, 2004 amounted to approximately NIS 4,433 thousand (about EUR 802 thousand), as compared to NIS 538 thousand (about EUR 97 thousand) as of December 31, 2003, attributable to deferred issuance expenses in connection with the convertible debentures issued to the public in accordance with the Israeli prospectus.

Liabilities

The aggregate short term credit amounted to approximately NIS 1,125 thousand (about EUR 203 thousand) as of September 30, 2004, as compared to NIS 812 thousand (about EUR 147 thousand) as December 31, 2003. This increase is mainly attributable to the increase in current maturities of long-term debts.

Accounts payable (trade) amounted as of September 30, 2004 to NIS 10,898 thousand (about EUR 1,973 thousand) as compared to NIS 6,256 thousand (about EUR 1,132 thousand) as of December 31, 2003. The increase results mainly from the growth in the Company's sales in the reported period as described below.

Accounts payable (other) amounted as of September 30, 2004 to NIS 9,541

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thousand (about EUR 1,727 thousand) as compared to NIS 5,039 thousand (about EUR 912 thousand) as of December 31, 2003. This increase results mainly from a growth in accrued expenses following the growth in system integration activities, and from an increase in liabilities to government institutions following the growth in revenues in the reported period as described below.

The long-term liabilities as of September 30, 2004 amounted to NIS 50,431 thousand (about EUR 9,127 thousand) as compared to NIS 17,341 thousand (about EUR 3,139 thousand) as of December 31, 2003. The increase is mainly attributable to the convertible bonds (series 1) issued as part of the public offer according to the Israeli prospectus.

The working capital of the Company amounted to approximately NIS 43,836 thousand (about EUR 7,935 thousand) as of September 30, 2004 as compared to approximately NIS 8,112 thousand (about EUR 1,468 thousand) as of December 31, 2003. This increase results mainly from the public offering consummated according to the Israeli prospectus.

The Company's shareholders equity as of September 30, 2004 increased to approximately NIS 19,835 thousand (about EUR 3,592 thousand), as compared to approximately NIS 12,323 thousand (about EUR 2,231 thousand) as of December 31, 2003. This increase arises mainly from the capital increase performed by the Company according to the Israeli prospectus, and from the net profit of the Company in the reported period, as described below.

D. Operating Results

Revenues

The revenues for the three months period ended September 30, 2004 amounted to approximately NIS 15,941 thousand (about EUR 2,885 thousand) as compared to approximately NIS 10,830 thousand (about EUR 1,960 thousand) in the corresponding quarter of 2003 (an increase of approximately 47%). The revenues for the nine months period ended September 30 2004 amounted to approximately NIS 44,025 thousand (about EUR 7,969 thousand) as compared to approximately NIS 27,974 thousand (about EUR 5,063 thousand) in the corresponding period of 2003 (an increase of about 57%). The continuous increase in revenues in the last twelve quarters results mainly, according to Company, from the following factors:

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

The revenues from the Company products' activities in the three months period ended September 30, 2004 constituted approximately 49.4% of the total revenues of the Company in this quarter whereas the revenues from its systems' activities in the same period constituted approximately 49% of the total revenues (about 1.6% of the Company's revenues was generated by other activities). In the contemporaneous quarter in the year 2003, the revenues from products' activities constituted 55% of the total revenues of the Company in such quarter whilst the revenues from systems' activities in the same period constituted approximately 45% of the total revenues. In the annual report for the year 2003, the revenues from the Company's products' activities constituted approximately 53% of the revenues whereas the revenues from the Company's systems' activities constituted approximately 47% of the revenues.

The fluctuations between the quarters results mainly from the pace of the actual progress of work of logistic systems projects performed by the Company's systems division (in the ordinary course of Company's business).

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Gross Profit

The gross profit for the three months period ended September 30, 2004 amounted to approximately NIS 5,489 thousand (about EUR 994 thousand) (approximately 34% of the revenues for the period) as compared to approximately NIS 3,451 thousand (about EUR 625 thousand) in the contemporaneous period in the year 2003 (approximately 32% of the revenues in the period), and as compared to approximately NIS 5,312 thousand (about EUR 962 thousand) for the three months period ended June 30, 2004 (approximately 36% of the revenues in the period) and The gross profit for the nine months period ended September 30 2004 amounted to approximately NIS 15,696 thousand (about EUR 2,841 thousand) (about 36% of the revenues) as compared to approximately NIS 9,476 thousand (about EUR 1,715 thousand) in the corresponding period of 2003 (about 34% of the revenues).

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

Research and Development Expenses (Net)

The research and development expenses (R&D) in the three months period ended September 30, 2004 amounted to approximately NIS 1,052 thousand (about EUR 190 thousand) (approximately 6.6% of the revenues) as compared to approximately NIS 1,090 thousand (about EUR 197 thousand) in the three months period ended June 30, 2004 (approximately 7.5% of the revenues) and as compared to approximately NIS 685 thousand (about EUR 124 thousand) in the corresponding quarter of 2003 (approximately 6.3% of the revenues). The R&D expenses for the nine months period ended September 30 2004 amounted to approximately NIS 3,068 thousand (about EUR 555 thousand) as compared to approximately NIS 2,215 thousand (about EUR 401 thousand) in the corresponding period of 2003.

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

Sale and Marketing Expenses

The sales and marketing expenses in the three months period ended September 30, 2004 amounted to approximately NIS 1,924 thousand (about EUR 348 thousand) (about 12% of revenues), in comparison to approximately NIS 1,689 thousand (about EUR 306 thousand) (about 12% of revenues) in the three months period ended June 30, 2004 and as compared to approximately NIS 1,600 thousand (about EUR 290 thousand) (about 15% of revenues) in the corresponding quarter of 2003. The sales and marketing expenses for the nine months period ended September 30 2004 amounted to approximately NIS 5,509 thousand (about

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EUR 997 thousand) as compared to approximately NIS 5,013 thousand (about EUR 907 thousand) in the corresponding period of 2003.

The increase in sales and marketing expenses in the reported period conforms with the increased revenues required to support the continued growth, in accordance with the Company's policy. This increase results, among others, from recruitment of additional personnel to the marketing teams, attendance and participation in trade shows, and additional marketing activities in Israel and worldwide. The Company expects continued growth in this item in the coming quarters.

General and Administrative Expenses

The general and administrative expenses for the three months period ended September 30, 2004 amounted to approximately NIS 1,215 thousand (about EUR 220 thousand) as compared to approximately NIS 1,205 thousand (about EUR 218 thousand) in the three months period ended June 30, 2004, and compared to approximately NIS 862 thousand (about EUR 156 thousand) in the corresponding quarter of 2003. The general and administrative expenses for the nine months period ended September 30 2004 amounted to approximately NIS 3,354 thousand (about EUR 608 thousand) as compared to approximately NIS 2,574 thousand (about EUR 466 thousand) in the corresponding period of 2003

The general and administrative expenses in the reported period reflect adaptations required for supporting the continued growth, and includes expenses related mainly to professional consulting and other services.

Operating Profit

The operating profit for the three months period ended September 30, 2004 amounted to approximately NIS 1,298 thousand (about EUR 236 thousand) as compared to an operating profit of approximately NIS 1,328 thousand (about EUR 240 thousand) for the three months period ended June 30, 2004, and compared to an operating profit of approximately NIS 304 thousand (about EUR 55 thousand) for the corresponding quarter of 2003. The operating profit for the nine months period ended September 30 2004 amounted to approximately NIS 3,765 thousand (about EUR 681 thousand) as compared to an operating loss of approximately NIS 326 thousand (about EUR 59 thousand) in the corresponding period of 2003

The relative stability in operating profit results mainly from adaptations made in the reported period in sales and marketing expenses and in general and administrative expenses, required for supporting the continued growth as explained above.

Financing Expenses (Net)

The financing expenses for the three months period ended September 30, 2004 amounted to approximately NIS 577 thousand (about EUR 104 thousand) as compared to approximately NIS 447 thousand (about EUR 81 thousand) for the three months period ended June 30, 2004 and as compared to approximately NIS 1,704 thousand (about EUR 308 thousand) in the corresponding quarter of 2003. The financing expenses for the nine months period ended September 30 2004 amounted to approximately NIS 1,641 thousand (about EUR 295 thousand) as compared to approximately NIS 2,655 thousand (about EUR 481 thousand) in the corresponding period of 2003.

As of May 2004, the Company's exposure to exchange rate fluctuations of the NIS against the US Dollar increased as a result of the issuance of Dollar linked convertible bonds (series 1) issued by the Company as part of its public offering pursuant to the Israeli prospectus. In addition, such public offering also introduced an 'interest' factor and accordingly the Company believes that the financial expenses item may be influenced by such factors in the coming quarters

Notwithstanding the above, only a moderate increase in financing expenses was registered in the reported period, mainly as a result of financial income from investment activities effected within the framework of the Company's risk management policy detailed below.

Net Profit (Loss)

In the three months period ended September 30, 2004, the Company reports a net profit which amounts to approximately NIS 729 thousand (about EUR 134 thousand) (approximately 4.6% of the revenues), in comparison to a net profit of approximately NIS 855 thousand (about EUR 155 thousand) (approximately 5.8% of the revenues) in the three months period ended June 30, 2004, and compared to a net loss of approximately NIS 1,391 thousand (about EUR 252 thousand) in the corresponding period of 2003. The net profit for the nine months period ended September 30 2004 amounted to approximately NIS 2,099 thousand (about EUR 382 thousand) as compared to a net loss of approximately NIS 3,010 thousand (about EUR 545 thousand) in the corresponding period of 2003.

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



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E. Liquidity and Financial Sources

The cash and cash equivalence and marketable securities of the Company as of September 30, 2004 amounted to approximately NIS 45,556 thousand (about EUR 8,246 thousand), as compared to approximately NIS 7,075 thousand (about EUR 1,281 thousand) as of December 31, 2003. This increase is mainly attributable to the public offering consummated by the Company according to the Israeli prospectus in May 2004, and from the positive cash flow since the beginning of the year 2004 as explained below.

The cash flow from operating activities for the nine months period ended September 30, 2004, amounted to a positive flow of approximately NIS 7,061 thousand (about EUR 1,279 thousand) (including a positive cash flow of approximately NIS 804 thousand - about EUR 148 thousand - for the three month period ended September 30, 2004, resulting mainly from the net profit in such period).

The cash flow from investment activities for the nine months period ended September 30, 2004, amounted to a negative cash flow of approximately NIS 22,470 thousand (about EUR 4,067 thousand) (including NIS 20,281 thousand - about EUR 3,671 thousand - for the three month period ended September 30, 2004) mainly as a result of investments in marketable securities in such period.

The cash flow from financing activities for the nine months period ended September 30, 2004, amounted to approximately NIS 33,949 thousand (about EUR 6,144 thousand) (including a negative cash flow of about NIS 78 thousand - about EUR 16 thousand - for the three month period ended September 30, 2004). The positive flow resulted mainly from the capital increase consummated by the Company in May 2004 in the public offering of securities in Israel.

As of September 30, 2004, the aggregate credit framework available to the Company amounted to approximately NIS 5 million (about EUR 1.2 million), of which approximately NIS 3.4 million (about EUR 0.6 million) has been exploited mainly for guarantees to secure the Company's obligations in certain projects performed by its systems' division.



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F. Exposure to Market Risks and Risk Management Handling

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

Exposure to Exchange Rate Fluctuations

The Company is exposed to exchange rate fluctuations, mainly to the rate of the dollar against the NIS and against the Euro, for the following reasons:

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

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

The assets of the Company which are exposed to exchange rate fluctuations mainly include deposits in various currencies (mainly in Euro and United States Dollar), and liabilities of customers which are denominated in various currencies depending on the customer, and do not bear interest.

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

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

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

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Risks Related to Marketable Securities

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

Interest Related Risks

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

Company's Policy of Handling Market Risks

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

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

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

In parallel, and in order to further enhance its ability to address the above exposures, the Company invested through two separate financial entities in Israel, in portfolios linked to the US dollar and in acquisition of bonds linked to the US dollar with varying interest rates.



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Monetary Assets and Liabilities Classified by Linkage Basis

	September 30, 2004		Other currencies					Non monetary assets and liabilities	Total
	Israeli currency		EURO	USD	Other currencies				
	Not linked	Linked to the Israeli CPI							
	NIS in thousands								
Assets									
Cash and cash equivalents	12,599	-	7,999	3,762	1	-	24,361		
Marketable securities	-	-	-	-	-	21,195	21,195		
Accounts receivable - Trade	8,782	-	1,357	1,287	12	-	11,440		
Accounts receivable - Other	166	398	-	-	-	433	997		
Inventory	-	-	-	-	-	7,407	7,407		
Inventory - work in progress	-	-	-	-	-	-	-		
Long-term deposits	-	-	-	-	-	120	120		
Property and equipment	-	-	-	-	-	21,877	21,877		
Other assets	-	-	-	-	-	4,433	4,433		
Total assets	21,547	398	9,356	5,051	13	55,465	91,830		
Liabilities									
Credit from banks and others	487	120	-	518	-	-	1,125		
Accounts payable - Trade	6,937	-	3,841	120	-	-	10,898		
Accounts payable - Other	7,536	-	-	21	-	1,984	9,541		
Long-term debt	5,795	307	-	5,055	-	-	11,157		
Convertible bonds	-	-	4,546	33,299	-	-	37,845		
Accrued severance pay, net	1,229	-	-	-	-	-	1,229		
Deferred taxes	-	-	-	-	-	200	200		
Total liabilities	21,984	427	8,387	39,013	-	2,184	71,995		
	(437)	(29)	969	(33,962)	13	53,281	19,835		

Tsvi Livne
 Director

Haim Shani
 Chairman & CEO

Date: November 4, 2004

Nw004971

UNITRONICS (1989) (R"G) LTD.

**Financial Statements
As of September
30,2004**

(Unaudited)

Unitronics (1989) (R"G) Ltd.

Financial Statements

As of September 30, 2004

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To the Board of Directors of Unitronics (1989) (R"G) Ltd.

Re: **Review of the Interim Financial Statements**

At your request, we have reviewed the interim consolidated balance sheet of Unitronics (1989) (R"G) Ltd. as of September 30, 2004, and the related interim consolidated statements of operations, changes in shareholders' (deficiency) equity and cash flows for the nine and the three months then ended.

Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included reading the above mentioned interim consolidated financial statements, reading minutes of meetings of the shareholders and of the board of directors and its committees, and making inquiries of persons responsible for financial and accounting matters.

We did not review the Interim Financial Statements of a subsidiary, which were reviewed by other auditors. We have been furnished with reports of other auditors in respect of the review of the Interim Financial Statements of the subsidiary whose assets as at September 30, 2004 represent approximately 2% of the total assets included in the Consolidated Interim Balance Sheet and whose income for the nine month period ending September 30, 2004 represents approximately 9% of the total income included in the Consolidated Interim Statement of Operations.

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

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

Amit, Halfon
Certified Public Accountants (Israel)

Tel-Aviv, November 4, 2004

Unitronics (1989) (R" G) Ltd. Consolidated Balance Sheets	<u>September 30, 2004</u>	<u>September 30, 2004</u>	<u>September 30, 2003</u>	<u>December 31, 2003</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>		<u>(audited)</u>
	<u>(in thousands)</u>			
	<u>Convenience translation into Euro</u>	<u>Reported NIS (1)</u>	<u>Adjusted NIS (2)</u>	<u>Adjusted NIS (2)</u>
Cash and cash equivalents	4,410	24,361	4,653	5,821
Marketable securities	3,836	21,195	1,211	1,254
Bank deposit	-	-	1,824	-
Accounts receivable -				
Trade	2,070	11,440	5,218	4,914
Other	180	997	4,681	503
Inventory	1,341	7,407	6,695	6,379
Inventory - work in progress	-	-	-	1,348
Current assets	<u>11,837</u>	<u>65,400</u>	<u>24,282</u>	<u>20,219</u>
<i>Long-term deposits</i>	22	120	122	116
<i>Property and equipment, net</i>	3,960	21,877	20,415	20,898
<i>Other assets and deferred expenses, net</i>	803	4,433	838	538
Total assets	<u>16,622</u>	<u>91,830</u>	<u>45,657</u>	<u>41,771</u>
Credit from banks and others	203	1,125	6,980	812
Accounts payable -				
Trade	1,973	10,898	8,510	6,256
Other	1,727	9,541	6,192	5,039
Current liabilities	<u>3,903</u>	<u>21,564</u>	<u>21,682</u>	<u>12,107</u>
Long-term debt	2,019	11,157	6,193	11,745
Convertible bonds	6,850	37,845	16,733	4,413
Accrued severance pay, net	222	1,229	1,170	1,068
Deferred taxes	36	200	59	115
Long-term liabilities	<u>9,127</u>	<u>50,431</u>	<u>24,155</u>	<u>17,341</u>
<i>Shareholders' (deficiency) equity</i>	<u>3,592</u>	<u>19,835</u>	<u>(180)</u>	<u>12,323</u>
Total liabilities and shareholders' equity	<u>16,622</u>	<u>91,830</u>	<u>45,657</u>	<u>41,771</u>

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

Tzvi Livne
Director

Yair Itscovich
Chief Financial Officer

Approved: November 4, 2004.

(1) See note 2.

(2) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Operations	<i>For the nine months period ended September 30, 2004</i>		<i>For the nine months period ended September 30, 2004</i>		<i>For the three months period ended September 30, 2004</i>		<i>For the three months period ended September 30, 2004</i>		<i>For the year ended December 31, 2003</i>
	<u>2004</u>		<u>2004</u>		<u>2004</u>		<u>2004</u>		<u>2003</u>
	<u>(unaudited)</u>		<u>(unaudited)</u>		<u>(unaudited)</u>		<u>(unaudited)</u>		<u>(audited)</u>
					<u>(in thousands)</u>				
	Convenience translation into Euro	Reported NIS (1)	Adjusted NIS (2)	Convenience translation into Euro	Reported NIS (1)	Adjusted NIS (2)	Adjusted NIS (2)	Adjusted NIS (2)	
Revenues	7,969	44,025	27,974	2,885	15,941	10,830		40,306	
Cost of revenues	5,128	28,329	18,498	1,891	10,452	7,379		26,483	
<i>Gross profit</i>	<i>2,841</i>	<i>15,696</i>	<i>9,476</i>	<i>994</i>	<i>5,489</i>	<i>3,451</i>		<i>13,823</i>	
Research & development expenses, net	555	3,068	2,215	190	1,052	685		3,055	
Selling & marketing expenses	997	5,509	5,013	348	1,924	1,600		6,667	
General & administrative expenses	608	3,354	2,574	220	1,215	862		3,580	
<i>Operating profit (loss)</i>	<i>681</i>	<i>3,765</i>	<i>(326)</i>	<i>236</i>	<i>1,298</i>	<i>304</i>		<i>521</i>	
Financing expenses, net	295	1,641	2,655	104	577	1,704		3,911	
<i>Operating profit (loss) after financing expenses, net</i>	<i>386</i>	<i>2,124</i>	<i>(2,981)</i>	<i>132</i>	<i>721</i>	<i>(1,400)</i>		<i>(3,390)</i>	
Other income (expenses), net	9	48	1	9	48	-		(9)	
<i>Profit (loss) before taxes on income</i>	<i>395</i>	<i>2,172</i>	<i>(2,980)</i>	<i>141</i>	<i>769</i>	<i>(1,400)</i>		<i>(3,399)</i>	
Tax benefits (taxes on income)	(13)	(73)	(30)	(7)	(40)	9		(111)	
<i>Profit (loss) for the period</i>	<i>382</i>	<i>2,099</i>	<i>(3,010)</i>	<i>134</i>	<i>729</i>	<i>(1,391)</i>		<i>(3,510)</i>	
<i>Profit (loss) per 1 NIS ordinary share</i>									
Basic	1.691	9.344	(16.816)	0.565	3.122	(7.771)		(19.609)	
Fully diluted	1.578	8.720	(16.816)	0.565	3.122	(7.771)		(19.609)	
<i>Supplementary information (3)</i>									
<i>Profit (loss) per ordinary share</i>									
Basic	0.034	0.187	(0.336)	0.011	0.062	(0.155)		(0.392)	
Fully diluted	0.031	0.174	(0.336)	0.011	0.062	(0.155)		(0.392)	

(1) See note 2.

(2) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.

(3) See note 2D.

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

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

	<u>Share capital</u>	<u>Share premium</u>	<u>Receipts on account of warrants</u>	<u>Accumulad Loss</u>	<u>Total</u>
<u>Adjusted NIS in thousands (2)</u>					
Balance at January 1, 2003 (audited)	295	30,233	-	(28,224)	2,304
Issue of share capital	3	523	-	-	526
Conversion of convertible bonds	38	12,965	-	-	13,003
Loss for the year	-	-	-	(3,510)	(3,510)
Balance at December 31, 2003 (audited)	<u>336</u>	<u>43,721</u>	<u>-</u>	<u>(31,734)</u>	<u>12,323</u>
<u>Reported NIS in thousands (1)</u>					
Balance at January 1, 2004 (audited)	336	43,721	-	(31,734)	12,323
Issue of share capital	16	4,721	-	-	4,737
Receipts on account of warrants	-	-	676	-	676
Profit for the period	-	-	-	2,099	2,099
Balance at September 30, 2004 (unaudited)	<u>352</u>	<u>48,442</u>	<u>676</u>	<u>(29,635)</u>	<u>19,835</u>
<u>Adjusted NIS in thousands (2)</u>					
Balance at January 1, 2003 (audited)	295	30,233	-	(28,224)	2,304
Issue of share capital	3	523	-	-	526
Loss for the period	-	-	-	(3,010)	(3,010)
Balance at September 30, 2003 (unaudited)	<u>298</u>	<u>30,756</u>	<u>-</u>	<u>(31,234)</u>	<u>(180)</u>
<u>Reported NIS in thousands (1)</u>					
Balance at July 1, 2004 (unaudited)	352	48,381	676	(30,364)	19,045
Refund of offering expenses	-	61	-	-	61
Profit for the period	-	-	-	729	729
Balance at September 30, 2004 (unaudited)	<u>352</u>	<u>48,442</u>	<u>676</u>	<u>(29,635)</u>	<u>19,835</u>
<u>Adjusted NIS in thousands (2)</u>					
Balance at July 1, 2003 (unaudited)	298	30,756	-	(29,843)	1,211
Loss for the period	-	-	-	(1,391)	(1,391)
Balance at September 30, 2003 (unaudited)	<u>298</u>	<u>30,756</u>	<u>-</u>	<u>(31,234)</u>	<u>(180)</u>

(1) See note 2.

(2) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.
The notes to the financial statements form an integral part thereof.

**Unitronics (1989) (R”G) Ltd.
Statements of Shareholders’ Equity**

	<u>Share capital</u>	<u>Share premium</u>	<u>Receipts on account of warrants</u>	<u>Accumulad Loss</u>	<u>Total</u>
<u>Convenience translation into Euro in thousands (unaudited)</u>					
Balance at January 1, 2004	61	7,914	-	(5,744)	2,231
Issue of share capital	3	854	-	-	857
Receipts on account of warrants	-	-	122	-	122
Profit for the period	-	-	-	382	382
Balance at September 30, 2004	<u>64</u>	<u>8,768</u>	<u>122</u>	<u>(5,362)</u>	<u>3,592</u>
<u>Convenience translation into Euro in thousands (unaudited)</u>					
Balance at July 1, 2004	64	8,758	122	(5,496)	3,448
Refund of offering expenses	-	10	-	-	10
Profit for the period	-	-	-	134	134
Balance at September 30, 2004	<u>64</u>	<u>8,768</u>	<u>122</u>	<u>(5,362)</u>	<u>3,592</u>

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

Unitronics (1989) (R”G) Ltd. Consolidated Statements of Cash Flows	<i>For the nine months period ended September 30,</i>		<i>For the nine months period ended September 30,</i>		<i>For the three months period ended September 30,</i>		<i>For the three months period ended September 30,</i>		<i>For the year ended December 31,</i>
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>		<u>(unaudited)</u>	<u>(unaudited)</u>		<u>(unaudited)</u>		<u>(audited)</u>
	<u>(in thousands)</u>								
	<u>Convenience translation into Euro</u>	<u>Reported NIS (1)</u>	<u>Adjusted NIS (2)</u>	<u>Convenience translation into Euro</u>	<u>Reported NIS (1)</u>	<u>Adjusted NIS (2)</u>	<u>Adjusted NIS (2)</u>		
Profit (loss) for the period	382	2,099	(3,010)	134	729	(1,391)	(3,510)		
Adjustments necessary to show the cash flows from operations (Appendix A)	897	4,962	2,650	14	75	883	3,108		
<i>Cash flows provided by (used in) operating activities</i>	<u>1,279</u>	<u>7,061</u>	<u>(360)</u>	<u>148</u>	<u>804</u>	<u>(508)</u>	<u>(402)</u>		
Investment in marketable securities, net	(3,585)	(19,804)	-	(3,591)	(19,837)	-	(67)		
Change in bank deposit	-	-	1,844	-	-	(1,217)	3,811		
Purchase of property and equipment	(516)	(2,852)	(4,325)	(113)	(624)	(696)	(3,997)		
Sale of equipment	45	246	4	45	246	-	34		
Investment in long-term deposits	(4)	(24)	-	(2)	(12)	(3)	(19)		
Repayment of long-term deposits	3	20	10	-	-	-	34		
Investment in other assets	(10)	(56)	-	(10)	(54)	-	(160)		
<i>Cash flows used in investing activities</i>	<u>(4,067)</u>	<u>(22,470)</u>	<u>(2,467)</u>	<u>(3,671)</u>	<u>(20,281)</u>	<u>(1,916)</u>	<u>(364)</u>		
Deferred offering expenses	(757)	(4,184)	-	-	-	-	-		
Long-term loan received	51	283	-	51	283	-	-		
Repayment of long-term loans	(131)	(723)	(399)	(78)	(429)	(141)	(625)		
Short-term credit from banks, net	1	7	(290)	1	7	1	(635)		
Share capital issue	857	4,737	526	10	61	-	526		
Receipts on account of warrants	122	676	-	-	-	-	-		
Convertible bonds issue	6,001	33,153	-	-	-	-	-		
Expenses related to conversion of convertible bonds to share capital	-	-	-	-	-	-	(322)		
<i>Cash flows provided by (used in) financing activities</i>	<u>6,144</u>	<u>33,949</u>	<u>(163)</u>	<u>(16)</u>	<u>(78)</u>	<u>(140)</u>	<u>(1,056)</u>		
<i>Increase (decrease) in cash and cash equivalents</i>	<u>3,356</u>	<u>18,540</u>	<u>(2,990)</u>	<u>(3,539)</u>	<u>(19,555)</u>	<u>(2,564)</u>	<u>(1,822)</u>		
Cash and cash equivalents at beginning of period	1,054	5,821	7,643	7,949	43,916	7,217	7,643		
Cash and cash equivalents at end of period	<u>4,410</u>	<u>24,361</u>	<u>4,653</u>	<u>4,410</u>	<u>24,361</u>	<u>4,653</u>	<u>5,821</u>		

(1) See note 2.

(2) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.

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

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

	<i>For the nine months period ended September 30,</i>		<i>For the nine months period ended September 30,</i>		<i>For the three months period ended September 30,</i>		<i>For the three months period ended September 30,</i>		<i>For the year ended December 31,</i>
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	<u>(unaudited)</u>		<u>(unaudited)</u>		<u>(unaudited)</u>		<u>(unaudited)</u>		<u>(audited)</u>
	<u>(in thousands)</u>								
	<u>Convenience translation into Euro</u>	<u>Reported NIS (1)</u>	<u>Adjusted NIS (2)</u>	<u>Convenience translation into Euro</u>	<u>Reported NIS (1)</u>	<u>Adjusted NIS (2)</u>	<u>Convenience translation into Euro</u>	<u>Reported NIS (1)</u>	<u>Adjusted NIS (2)</u>

Appendix A - Adjustments

necessary to

show the cash flows from
operations

Depreciation and amortization	256	1,413	1,198	120	661	394			1,603
Profit from marketable securities, net	(25)	(137)	(115)	(22)	(124)	(30)			(90)
Capital (gain) loss	(9)	(48)	(1)	(9)	(48)	-			9
Change in accrued severance pay, net	29	161	87	11	62	106			(15)
Deferred taxes, net	8	45	30	2	12	(9)			111
Erosion on long-term debt, convertible bonds and bank deposit, net	45	251	788	9	48	1,164			1,470
Decrease (increase) in accounts receivable - trade	(1,181)	(6,526)	(120)	(1,123)	(6,205)	(1,290)			184
Decrease (increase) in accounts receivable - other	(89)	(494)	(3,722)	20	108	633			458
Increase in inventory	(186)	(1,028)	(2,291)	(236)	(1,306)	(584)			(1,974)
Decrease (increase) in inventory - work in progress	244	1,348	-	36	198	-			(1,348)
Increase (decrease) in accounts payable - trade	991	5,475	5,955	542	2,994	(1,048)			2,565
Increase in accounts payable - other	814	4,502	841	664	3,675	1,547			135
	<u>897</u>	<u>4,962</u>	<u>2,650</u>	<u>14</u>	<u>75</u>	<u>883</u>			<u>3,108</u>

Appendix B - Non cash transactions

Payables related to property and equipment	<u>125</u>	<u>688</u>	<u>386</u>	<u>125</u>	<u>688</u>	<u>386</u>			<u>1,521</u>
Conversion of convertible bonds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>			<u>13,325</u>

(1) See note 2.

(2) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.

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

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

Note 1 - General

These financial statements have been prepared in a condensed format as of September 30, 2004, and for the nine and the three months then ended (hereinafter - "interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of December 31, 2003 and for the year then ended.

Note 2 - Significant Accounting Policies

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

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

- B. 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.

1. Starting point for the preparation of financial statements

- a) In the past, the Company prepared its financial statements on the basis of the historical cost convention, adjusted for the changes in the general purchasing power of the Israeli currency based on the changes in the Israeli Consumer Price Index ("Israeli CPI"). These adjusted amounts, as included in the financial statements as of December 31, 2003 (the transition date), served as a starting point for nominal financial reporting beginning January 1, 2004. Additions made after the transition date are included at nominal values.
- b) The amounts for non-monetary assets do not necessarily represent realizable value or current economic value, but only the reported amounts for those assets.
- c) In the financial statements "cost" represents cost in the reported amount (see 2 below).
- d) All comparative data for previous periods are presented after adjustment for the Israeli CPI as of the transition date (the Israeli CPI for December 2003).

2. Financial statements in reported amounts

a) Definitions

Adjusted amount - historical nominal amount adjusted for the Israeli CPI as of December 2003, according to the provisions of Opinions No. 23 and No. 36 of the Institute of Certified Public Accountants in Israel.

Reported amount - adjusted amount as of the transition date, plus additions in nominal values after the transition date and less amounts deducted after the transition date. The amounts deducted after the transition date are in historical nominal values, adjusted amounts as of the transition date or in a combination of historical nominal values and adjusted amounts as of the transition date, according to the relevant situation.

Note 2 - Significant Accounting Policies (cont')

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

2. Financial statements in reported amounts (cont')

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.

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

As of	Israeli CPI Points (*)	Exchange rate of one U.S. dollar NIS
September 30, 2004	180.74	4.482
September 30, 2003	179.30	4.441
December 31, 2003	178.58	4.379
Change during the period	%	%
September 2004 (nine months)	1.21	2.35
September 2004 (three months)	(0.19)	(0.33)
September 2003 (nine months)	(1.49)	(6.25)
September 2003 (three months)	(0.99)	2.99
December 2003 (12 months)	(1.88)	(7.56)

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

C. Convenience translation in EURO

For the convenience of the reader, the reported NIS amounts for the last reported period have been translated in EURO by dividing each reported NIS amount by the representative rate of exchange of the EURO as at September 30, 2004 (EURO 1 = NIS 5.5247).

D. Profit (loss) per ordinary share

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

Note 3 - Business segments

A. Revenues

Unitronics (1989) (R"G) Ltd.

	<i>For the nine months period ended September 30,</i>	<i>For the nine months period ended September 30,</i>		<i>For the three months period ended September 30,</i>	<i>For the three months period ended September 30,</i>		<i>For the year ended December 31,</i>
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>		<u>(unaudited)</u>	<u>(unaudited)</u>		<u>(audited)</u>
				<u>(in thousands)</u>			
	<u>Convenience translation into Euro</u>	<u>Reported NIS (1)</u>	<u>Adjusted NIS (2)</u>	<u>Convenience translation into Euro</u>	<u>Reported NIS (1)</u>	<u>Adjusted NIS (2)</u>	<u>Adjusted NIS (2)</u>
Products	3,969	21,925	15,411	1,426	7,877	5,423	21,181
System integration projects	3,918	21,649	12,563	1,414	7,813	5,407	19,125
Other	82	451	-	45	251	-	-
Total revenues	<u>7,969</u>	<u>44,025</u>	<u>27,974</u>	<u>2,885</u>	<u>15,941</u>	<u>10,830</u>	<u>40,306</u>
B. Segment results							
Products	1,739	9,605	6,372	670	3,700	2,229	8,888
System integration projects	798	4,408	2,123	215	1,186	870	3,464
Other	15	81	-	14	80	-	-
Unallocated corporate expenses	<u>(1,871)</u>	<u>(10,329)</u>	<u>(8,821)</u>	<u>(663)</u>	<u>(3,668)</u>	<u>(2,795)</u>	<u>(11,831)</u>
<i>Operating profit (loss)</i>	<u>681</u>	<u>3,765</u>	<u>(326)</u>	<u>236</u>	<u>1,298</u>	<u>304</u>	<u>521</u>

(1) See note 2.

(2) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.