UNITRONICS

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 Corporation as of June 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., for the three months period ended June 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 June 30, 2004 (1 EUR = 5.4657 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.

After the reported period, 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.

Agreement for the Establishment of an Automated Warehouse to "Pelephone"

In May 2004 the Company signed an agreement with Pelephone, an Israeli cellular operator, for the establishment of an automatic warehouse as part of a logistic center being constructed at Airport City Business Park near Ben-Gurion Airport.

The agreement reflects revenues of approximately NIS 2.5 million (about EUR 457 thousand), and includes planning, supplying and establishing a mini load automatic storage and retrieval system for end-user cellular related items to be stored. The project is targeted for completion before the end of 2004.

Contract to supply Control, Software and Conveying Systems to Coca Cola in Israel

In June 2004, the Company announced the execution of an agreement with the Central Bottling Company Ltd. ("Coca Cola" in Israel), for the supply and installation of a control system, production control software, and an automatic monorail conveying system, to be installed at Coca Cola's Bney Brak manufacturing facility (Israel), (the "Project"). The systems to be installed in the Project are based on Unitronics PLCs and other control software tools developed by Unitronics.

In consideration for fulfilling its undertakings in the Project, Coca Cola undertook to pay Unitronics a total amount of approximately NIS 3 million (about Euros 550 thousand) subject to the achievement of certain milestones. The project is targeted for completion in the first quarter of 2005. In order to assure its obligations, Unitronics will provide certain guaranties, which are to be released in portions according to the progress of the work.

Agreement for the Upgrade of a Military Automatic Warehouse

During the period, a subcontracting agreement with a US company has been executed for the upgrade of an automated storage system in a military facility of the IDF. The Company agreed to undertake the US company's responsibilities defined in the primary contracting agreement between the US company and the client. The agreement reflects revenues of approximately one million NIS (approximately Euros 183 thousand) with targeted completion in the second quarter of 2005.

The agreement was executed following completion of a settlement agreement between the Company and certain entities as detailed in the Company's prospectus dated May 12, 2004 (paragraph 10.4.2). This settlement agreement was endorsed by a judgment of the District Court in Tel Aviv during the reported period.

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

After the reported period, 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 of approximately 15 NIS million (approximately EUR 2.8 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 June 30, 2004 amounted to approximately NIS 83,737 thousand (about EUR 15,320 thousand) as compared to approximately NIS 41,771 thousand (about EUR 7,642 thousand) as of December 31, 2003. This increase is mainly attributable to the increase in cash and cash equivalents 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 1,294 thousand) as of December 31, 2003 to approximately NIS 45,150 thousand (about EUR 8,261 thousand) as of June 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, previously described amongst the main events of the reported period.

The current assets as of June 30, 2004 amounted to approximately NIS 57,789 thousand (about EUR 10,573 thousand), compared to approximately NIS 20,219 thousand (about EUR 3,699 thousand) as of December 31 2003, as a result of the above explained increase in liquidity.

Liabilities

Credit from banks amounted to approximately NIS 1,075 thousand (about EUR 197 thousand) as of June 30, 2004, as compared to NIS 812 thousand (about EUR 149 thousand) as December 31, 2003. This increase is mainly attributable to the increase in current maturities of long-term debts.

Accounts payables (trade) amounted as of June 30, 2004 to NIS 7,386 thousand (about EUR 1,351 thousand) as compared to NIS 6,256 thousand (about EUR 1,145 thousand) as of December 31, 2003. The increase results mainly from the growing activity of the Company as expressed primarily by the increase in its revenues.

The current liabilities as of June 30, 2004 amounted to NIS 14,327 thousand (about EUR 2,621 thousand) as compared to NIS 12,107 thousand (about EUR 2,215 thousand) as of December 31, 2003. The increase is mainly attributable to the increase of accounts payables (trade) as specified above.

The long-term liabilities as of June 30, 2004 amounted to NIS 50,365 thousand (about EUR 9,215 thousand) as compared to NIS 17,341 thousand (about EUR 3,173 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 in May 2004.

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The working capital of the Company amounted to approximately NIS 43,462 thousand (about EUR 7,952 thousand) as of June 30, 2004 as compared to approximately NIS 8,112 thousand (about EUR 1,484 thousand) as of December 31, 2003. This increase results mainly from the public offering consummated according to the Israeli prospectus in May 2004.

The Company's shareholders equity as of June 30, 2004 increased to approximately NIS 19,045 thousand (about EUR 3,484 thousand), as compared to approximately NIS 12,323 thousand (about EUR 2,255 thousand) as of December 31, 2003. This increase arises mainly from the capital increase performed by the Company according to the Israeli prospectus in May 2004, and from the net profit of the Company in the reported period, as described below.

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D. Operating Results

Revenues

The revenues for the three months period ended June 30, 2004 amounted to approximately NIS 14,607 thousand (about EUR 2,672 thousand) as compared to NIS approximately 13,477 thousand (about EUR 2,466 thousand) for the three months period ended March 31, 2004 (an increase of approximately 8%) and as compared to approximately NIS 9,306 thousand (about EUR 1,703 thousand) in the same quarter of 2003 (an increase of approximately 57%). The revenues for the six months period ended June 30 2004 amounted to approximately NIS 28,084 thousand (about EUR 5,138 thousand) as compared to approximately NIS 17,143 thousand (about EUR 3,136 thousand) in the same period of 2003 (and increase of about 64%). The continuous increase in revenues in the last eleven 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 June 30, 2004 constituted approximately 50% 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 one percent of the Company's revenues was generated by other activities).

In the three months period ended March 31, 2004, the revenues from products' activities constituted approximately 50% of the total revenues of the company in such quarter, and the revenues from systems' activities during that same period constituted approximately 50% of the total revenues of the company. In the contemporaneous quarter in the year 2003, the revenues from products' activities constituted 56% of the total revenues of the company in such quarter whilst the revenues from systems' activities in the same period constituted approximately 44% 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 preformed by the systems division of the company.

Gross Profit

The gross profit for the three months period ended June 30, 2004 amounted to approximately NIS 5,312 thousand (about EUR 972 thousand) (approximately 36% of the revenues for the period) as compared to approximately NIS 4,895 thousand (about EUR 895 thousand) for the three months period ended March 31, 2004 (approximately 36% of the revenues in the period) and as compared to approximately NIS 3,344 thousand (about EUR 612 thousand) in the contemporaneous period in the year 2003 (approximately 36% of the revenues in the period). The gross profit for the six months period ended June 30 2004 amounted to approximately NIS 10,207 thousand (about EUR 1,867 thousand) (about 36% of the revenues) as compared to approximately NIS 6,024 thousand (about EUR 1,102 thousand) in the same period of 2003 (about 35% of the revenues).

Research and Development Expenses (Net)

The research and development expenses (R&D) in the three months period ended June 30, 2004 amounted to approximately NIS 1,090 thousand (about EUR 199 thousand) (approximately 7% of the revenues) as compared to approximately NIS 926 thousand (about EUR 169 thousand) in the three months period ended March 31, 2004 (approximately 7% of the revenues) and as compared to approximately NIS 724 thousand (about EUR 132 thousand) in the same quarter of 2003 (approximately 8% of the revenues). The R&D expenses for the six months period ended June 30 2004 amounted to approximately NIS 2,016 thousand (about EUR 369 thousand) as compared to approximately NIS 1,530 thousand (about EUR 280 thousand) in the same period of 2003.

The Company is in the process of development of a new technology (WilCo™), with a partial financing participation of the Chief Scientist of the Ministry of Industry and Commerce of Israel.

The R&D expenses in the reported period reflect a stage of increased development activity of new technologies and new products and also the recruitment of additional manpower to the development teams.

Sale and Marketing Expenses

The sales and marketing expenses in the three months period ended June 30, 2004 amounted to approximately NIS 1,689 thousand (about EUR 309 thousand), in comparison to approximately NIS 1,896 thousand (about EUR 347 thousand) in the three months period ended March 31, 2004 and as compared to approximately NIS 1, 655 thousand (about EUR 303 thousand) in the same quarter of 2003. The sales and marketing expenses for the six months period ended June 30 2004 amounted to approximately NIS 3,585 thousand (about EUR 656 thousand) as compared to approximately NIS 3,413 thousand (about EUR 624 thousand) in the same period of 2003.

These amounts reflect a relatively fixed expense which complies with the Company's policy in respect to the international marketing, with minor fluctuations resulting from participation in trade shows and execution of training programs for distributors throughout the world.

General and Administrative Expenses

The general and administrative expenses for the three months period ended June 30, 2004 amounted to approximately NIS 1,205 thousand (about EUR 220 thousand) as compared to approximately NIS 934 thousand (about EUR 171 thousand) in the three months period ended March 31, 2004, and compared to approximately NIS 813 thousand (about EUR 149 thousand) in the same quarter of 2003. The general and administrative expenses for the six months period ended June 30 2004 amounted to approximately NIS 2,139 thousand (about EUR 391 thousand) as compared to approximately NIS 1,711 thousand (about EUR 313 thousand) in the same period of 2003

The increase in the reported period results mainly from non recurring expenses related mainly to professional consulting services.

Operating Profit

The operating profit for the three months period ended June 30, 2004 amounted to approximately NIS 1,328 thousand (about EUR 243 thousand) as compared to an operating profit of approximately NIS 1,139 thousand (about EUR 208 thousand) for the three months period ended March 31, 2004 (an increase of 16.5%) and as compared to an operating profit of approximately NIS 152 thousand (about EUR 28 thousand) for the same quarter of 2003. The operating profit for the six months period ended June 30 2004 amounted to approximately NIS 2,467 thousand (about EUR 451 thousand) as compared to an operating loss of approximately NIS 630 thousand (about EUR 115 thousand) in the same period of 2003

In the second quarter of 2003, the company presented an operating profit. The turning point to operating profit and the continuous increase in operating profit results mainly from continued growth in revenues in the last eleven consecutive quarters, without significant changes in R&D, sales and marketing and general and administrative expenses in the last quarters, as specified above.

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Financing Expenses (Net)

The financing expenses for the three months period ended June 30, 2004 decreased and amounted to approximately NIS 447 thousand (about EUR 82 thousand) as compared to approximately NIS 617 thousand (about EUR 113 thousand) for the three months period ended March 31, 2004 and as compared to approximately NIS 327 thousand (about EUR 60 thousand) in the same quarter of 2003. The financing expenses for the six months period ended June 30 2004 amounted to approximately NIS 1,064 thousand (about EUR 194 thousand) as compared to approximately NIS 950 thousand (about EUR 174 thousand) in the same period of 2003.

In the reported period a decrease in the financing expenses was noted, mainly as a result of the decrease in the exchange rate of the NIS against the Euro and against the US Dollar, influencing the Company's debts denominated in these currencies.

As of May 2004, the exposure of the Company to fluctuations of the exchange rate 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. The Company believes that financial expenses may be influenced by such fluctuations in the coming quarters.

Net Profit (Loss)

In the three months period ended June 30, 2004, the Company reports a net profit which amounts to approximately NIS 855 thousand (about EUR 156 thousand) (approximately 6% of the revenues), an increase of about 66% in comparison to a net profit of approximately NIS 515 thousand (about EUR 95 thousand) in the three months period ended March 30, 2004, and compared to a net loss of approximately NIS 167 thousand (about EUR 31 thousand) in the same period of 2003. The net profit for the six months period ended June 30 2004 amounted to approximately NIS 1,370 thousand (about EUR 251 thousand) as compared to a net loss of approximately NIS 1,619 thousand (about EUR 296 thousand) in the same period of 2003.

According to the Company, the continuous increase in revenues while maintaining the framework of operating expenses, and the decrease in financing expenses – are the main factors for the increase in net profit.

E. Liquidity and Financial Sources

The cash and cash equivalence of the company as of June 30, 2004 amounted to approximately NIS 43,916 thousand (about EUR 8,035 thousand), as compared to approximately NIS 5,821 thousand (about EUR 1,065 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 flows which amounted to approximately NIS 38,095 thousand (about EUR 6,970 thousand) during the first six months of 2004 (including NIS 31,700 thousand - about EUR 5,800 thousand - during the reported period) as explained in the following section.

The cash flows used in operating activities for the six months period ended June 30, 2004, amounted to a positive flow of approximately NIS 6,257 thousand (about EUR 1,145 thousand) (including a negative cash flow of approximately NIS 2,285 thousand - about EUR 418 thousand - for this report's period). The total positive flow resulted mainly from the net profit during the first six months of 2004 (the net profit turned positive in the first quarter of 2004). The negative cash flow in the reported period resulted mainly from a decrease in accounts payable (others) due to the actual progress of the installation of an automatic warehouse by the systems department of the company, for which an advance payment has been received during the previous quarter.

The cash flows used in investment activities for the six months period ended June 30, 2004, amounted to approximately NIS 2,189 thousand (about EUR 401 thousand) (including NIS 128 thousand - about EUR 23 thousand - for this report's period) as a result of investments in fixed assets.

The cash flows used in financing activities for the six months period ended June 30, 2004, amounted to approximately NIS 34,027 thousand (about EUR 6,226 thousand) (including NIS 34,113 thousand - about EUR 6,241 thousand - for this report's period). The positive flow resulted mainly from the capital increase consummated by the Company in May 2004 in a public offering of securities in Israel, previously described amongst the main events during the reported period.

The Company increased its approved credit framework required for operation. As of June 30, 2004, this credit framework amounted to approximately NIS 5 million (about EUR 914 thousand), of which approximately NIS 800 thousand (about EUR 146 thousand) has been exploited for guarantees to secure the Company's obligations in certain projects performed by its systems' division.

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 the chief financial officer.

Exposure to Exchange Rates Fluctuations

The company is exposed to exchange rates 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 from May 12, 2004. 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 rates fluctuations of the US Dollar against the NIS.

In February 2001, the company issued convertible bonds which were issued and 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 rates fluctuations of the Euro against the NIS.

Other assets of the company which are exposed to exchange rates fluctuations 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 and inventory work in progress denominated in part in foreign currency particularly in Euro.

The current liabilities which are exposed to exchange rates 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 figures which are linked to foreign currency. In the products segment, 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. In the systems division, the majority of the company revenues resulted from sales denominated in Euro or which are linked to the rate of the Euro.

The raw materials which are required for the production of the company products include mainly various electronic and mechanical components, and in most cases their prices are denominated in foreign currency – especially in Dollar and Euro.

Risks Related to Marketable Securities

A part of the financial assets of the company is invested in marketable securities. Extreme developments in capital markets in Israel and in the world are likely to cause fluctuations in the rates of shares and securities marketable on the Stock Exchange and consequently affect the financial income or expenses of the company.

Interest Related Risks

The company holds a number of loans in the framework of a plan for financing the acquisition of rights in the company's facility at Airport City and in 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 facilitates the 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 provisions specifically 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 facilitate coping with the exposures which are described above, the Company acquired financial instruments from two separate financial entities in Israel, including inter alia investments in portfolios linked to the US dollar and the acquisition of bonds linked to the US dollar with variable interest rates.

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Monetary Assets and Liabilities Classified by Linkage Basis

	June 30,2004						
	Israeli currency		Other currencies				
	Not linked	Linked to the Israeli CPI	EURO	USD	Other currencies	Non monitary assets and liabilities	Total
	NIS in thousands						
Assets							
Cash and cash equivalents	36,003	-	5,134	2,778	1	-	43,916
Marketable securities	-	-	-	-	-	1,234	1,234
Accounts receivable - Trade	2,683	-	1,275	1,277	-	-	5,235
Accounts receivable - Other	506	361	-	-	-	238	1,105
Inventory	-	-	-	-	-	6,101	6,101
Inventory - work in progress	-	-	-	-	-	198	198
Long-term deposits	-	-	-	-	-	108	108
Property and equipment	-	-	-	-	-	21,221	21,221
Other assets	-	-	-	-	-	4,619	4,619
Total assets	39,192	361	6,409	4,055	1	33,719	83,737
Liabilities							
Credit from banks and others	480	75	-	520	-	-	1,075
Accounts payable - Trade	5,615	-	1,554	194	23	-	7,386
Accounts payable - Other	4,756	-	-	26	-	1,084	5,866
Long-term debt	6,035	108	-	5,204	-	-	11,347
Convertible bonds	-	-	4,484	33,195	-	-	37,679
Accrued severance pay, net	1,167	-	-	-	-	-	1,167
Deferred taxes	-	-	-	-	-	172	172
Total liabilities	18,053	183	6,038	39,139	23	1,256	64,692
	21,139	178	371	(35,084)	(22)	32,463	19,045

Tsvi Livne
Director

Haim Shani
Chairman & CEO

Date: July 25, 2004

Nw004796

UNITRONICS (1989) (R"G) LTD.

Financial Statements
As of June 30,2004

(Unaudited)

Unitronics (1989) (R"G) Ltd.

Financial Statements

As of June 30, 2004

Table of contents

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

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

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

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

We did not review the Interim Financial Statements of a subsidiary, which were reviewed by other auditors. We have been furnished with reports of other auditors in respect of the review of the Interim Financial Statements of the subsidiary whose assets as at June 30, 2004 represent approximately 2% of the total assets included in the Consolidated Interim Balance Sheet and whose income for the six month period ending June 30, 2004 represents approximately 10% 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, July 25, 2004

Unitronics (1989) (R"G) Ltd. Consolidated Balance Sheets	***June 30, 2004***	***June 30, 2004***	***June 30, 2003***	***December 31, 2003***
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro	**reported NIS (1)**	**adjusted NIS (2)**	**Adjusted NIS (2)**
Cash and cash equivalents	8,034	43,916	7,217	5,821
Marketable securities	226	1,234	1,181	1,254
Bank deposit	-	-	493	-
Accounts receivable -				
Trade	958	5,235	3,928	4,914
Other	203	1,105	5,316	503
Inventory	1,116	6,101	6,111	6,379
Inventory - work in progress	36	198	-	1,348
Current assets	*10,573*	*57,789*	*24,246*	*20,219*
Long-term deposits	*20*	*108*	*118*	*116*
Property and equipment	*3,883*	*21,221*	*19,956*	*20,898*
Other assets	*845*	*4,619*	*871*	*538*
Total assets	***15,321***	***83,737***	***45,191***	***41,771***
Credit from banks and others	197	1,075	4,821	812
Accounts payable -				
Trade	1,351	7,386	9,545	6,256
Other	1,073	5,866	4,648	5,039
Current liabilities	*2,621*	*14,327*	*19,014*	*12,107*
Long-term debt	2,075	11,347	8,227	11,745
Convertible bonds	6,893	37,679	15,634	4,413
Accrued severance pay, net	214	1,167	1,064	1,068
Deferred taxes	31	172	41	115
Long-term liabilities	*9,213*	*50,365*	*24,966*	*17,341*
Shareholders' equity	*3,487*	*19,045*	*1,211*	*12,323*
Total liabilities and shareholders' equity	***15,321***	***83,737***	***45,191***	***41,771***

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

Tzvi Livne
Director

Yair Itscovich
Chief Financial Officer

Approved: July 25, 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

	For the six months period ended June 30,	*For the six months period ended June 30,*		*For the three months period ended June 30,*	*For the three months period ended June 30,*		*For the year ended December 31,*
	2004	**2004**	**2003**	**2004**	**2004**	**2003**	**2003**
	(unaudited)	**(unaudited)**		**(unaudited)**	**(unaudited)**		**(audited)**
				(in thousands)			
	Convenience translation into Euro	**Reported NIS (1)**	**Adjusted NIS (2)**	**Convenience translation into Euro**	**Reported NIS (1)**	**Adjusted NIS (2)**	**Adjusted NIS (2)**
Revenues	5,138	28,084	17,143	2,672	14,607	9,306	40,306
Cost of revenues	3,271	17,877	11,119	1,701	9,295	5,962	26,483
Gross profit	*1,867*	*10,207*	*6,024*	*971*	*5,312*	*3,344*	*13,823*
Research & development expenses, net	369	2,016	1,530	199	1,090	724	3,055
Selling & marketing expenses	656	3,585	3,413	309	1,689	1,655	6,667
General & administrative expenses	391	2,139	1,711	220	1,205	813	3,580
Operating profit (loss)	*451*	*2,467*	*(630)*	*243*	*1,328*	*152*	*521*
Financing expenses, net	192	1,064	950	81	447	327	3,911
Operating profit (loss) after financing expenses, net	*259*	*1,403*	*(1,580)*	*162*	*881*	*(175)*	*(3,390)*
Other expenses, net	-	-	(1)	-	-	-	(9)
Profit (loss) before taxes on income	*259*	*1,403*	*(1,581)*	*162*	*881*	*(175)*	*(3,399)*
Tax benefits (taxes on income)	(6)	(33)	(38)	(5)	(26)	8	(111)
Profit (loss) for the period	*253*	*1,370*	*(1,619)*	*157*	*855*	*(167)*	*(3,510)*
Profit (loss) per ordinary share							
Basic	1.138	6.222	(9.039)	0.702	3.836	(0.930)	(19.609)
Fully diluted	0.642	3.509	(9.039)	0.316	1.728	(0.930)	(19.609)
Supplementary information (3)							
Profit (loss) per ordinary share							
Basic	0.023	0.124	(0.181)	0.014	0.077	(0.019)	(0.392)
Fully diluted	0.013	0.070	(0.181)	0.006	0.035	(0.019)	(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' Equity

	Share capital	Share premium	Receipts on account of warrants	Accumulad Loss	Total
			Adjusted NIS in thousands (2)		
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)	336	43,721	-	(31,734)	12,323
			Reported NIS in thousands (1)		
Balance at January 1, 2004 (audited)	336	43,721	-	(31,734)	12,323
Issue of share capital	16	4,660	-	-	4,676
Receipts on account of warrants	-	-	676	-	676
Profit for the period	-	-	-	1,370	1,370
Balance at June 30, 2004 (unaudited)	352	48,381	676	(30,364)	19,045
			Adjusted NIS in thousands (2)		
Balance at January 1, 2003 (audited)	295	30,233	-	(28,224)	2,304
Issue of share capital	3	523	-	-	526
Loss for the period	-	-	-	(1,619)	(1,619)
Balance at June 30, 2003 (unaudited)	298	30,756	-	(29,843)	1,211
			Reported NIS in thousands (1)		
Balance at April 1, 2004 (unaudited)	336	43,721	-	(31,219)	12,838
Issue of share capital	16	4,660	-	-	4,676
Receipts on account of warrants	-	-	676	-	676
Profit for the period	-	-	-	855	855
Balance at June 30, 2004 (unaudited)	352	48,381	676	(30,364)	19,045
			Adjusted NIS in thousands (2)		
Balance at April 1, 2003 (unaudited)	298	30,756	-	(29,676)	1,378
Loss for the period	-	-	-	(167)	(167)
Balance at June 30, 2003 (unaudited)	298	30,756	-	(29,843)	1,211

(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

	Share capital	Share premium	Receipts on account of warrants	Accumulad Loss	Total
	Convenience translation into Euro in thousands (unaudited)				
Balance at January 1, 2004	61	7,999	-	(5,806)	2,254
Issue of share capital	3	853	-	-	856
Receipts on account of warrants	-	-	124	-	124
Profit for the period	-	-	-	253	253
Balance at June 30, 2004	64	8,852	124	(5,553)	3,487
	Convenience translation into Euro in thousands (unaudited)				
Balance at April 1, 2004	61	7,999	-	(5,710)	2,350
Issue of share capital	3	853	-	-	856
Receipts on account of warrants	-	-	124	-	124
Profit for the period	-	-	-	157	157
Balance at June 30, 2004	64	8,852	124	(5,553)	3,487

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Cash Flows	For the six months period ended June 30,	For the six months period ended June 30,		For the three months period ended June 30,	For the three months period ended June 30,		For the year ended December 31,
	2004	2004	2003	2004	2004	2003	2003
	(unaudited)	(unaudited)		(unaudited)	(unaudited)		(audited)
				(in thousands)			
	Convenience translation into Euro	Reported NIS (1)	Adjusted NIS (2)	Convenience translation into Euro	Reported NIS (1)	Adjusted NIS (2)	Adjusted NIS (2)
Profit (loss) for the period	253	1,370	(1,619)	157	855	(167)	(3,510)
Adjustments necessary to show the cash flows from operations (Appendix A)	891	4,887	1,766	(577)	(3,140)	22	3,108
Cash flows provided by (used in) operating activities	*1,144*	*6,257*	*147*	*(420)*	*(2,285)*	*(145)*	(402)
Sale of (investment in) marketable securities, net	6	33	-	(6)	(35)	-	(67)
Change in bank deposit	-	-	3,060	-	-	-	3,811
Purchase of property and equipment	(408)	(2,228)	(3,628)	(17)	(93)	(736)	(3,997)
Sale of equipment	-	-	4	-	-	-	34
Investment in long-term deposits	(2)	(12)	-	(1)	(5)	-	(19)
Repayment of long-term deposits	3	20	13	1	7	-	34
Investment in other assets	-	(2)	-	-	(2)	-	(160)
Cash flows used in investing activities	*(401)*	*(2,189)*	*(551)*	*(23)*	*(128)*	*(736)*	(364)
Deferred offering expenses	(766)	(4,184)	-	(691)	(3,776)	-	-
Repayment of long-term loans	(54)	(294)	(258)	(27)	(148)	(124)	(625)
Short-term credit from banks, net	-	-	(290)	(86)	(468)	100	(635)
Share capital issue	856	4,676	526	856	4,676	-	526
Receipts on account of warrants	124	676	-	124	676	-	-
Convertible bonds issue	6,066	33,153	-	6,066	33,153	-	-
Expenses related to conversion of convertible bonds to share capital	-	-	-	-	-	-	(322)
Cash flows provided by (used in) financing activities	*6,226*	*34,027*	*(22)*	*6,242*	*34,113*	*(24)*	(1,056)
Increase (decrease) in cash and cash equivalents	*6,969*	*38,095*	*(426)*	*5,799*	*31,700*	*(905)*	(1,822)
Cash and cash equivalents at beginning of period	1,065	5,821	7,643	2,235	12,216	8,122	7,643
Cash and cash equivalents at end of period	*8,034*	*43,916*	*7,217*	*8,034*	*43,916*	*7,217*	*5,821*

(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	For the six months period ended June 30,	For the six months period ended June 30,		For the three months period ended June 30,	For the three months period ended June 30,		For the year ended December 31,
	2004	2004	2003	2004	2004	2003	2003
	(unaudited)	(unaudited)		(unaudited)	(unaudited)		(audited)
				(in thousands)			
	Convenience translation into Euro	Reported NIS (1)	Adjusted NIS (2)	Convenience translation into Euro	Reported NIS (1)	Adjusted NIS (2)	Adjusted NIS (2)
Appendix A - Adjustments necessary to show the cash flows from operations							
Depreciation and amortization	138	752	804	87	476	402	1,603
Profit from marketable securities, net	(2)	(13)	(85)	(3)	(15)	(62)	(90)
Capital loss	-	-	1	-	-	-	9
Increase (decrease) in accrued severance pay, net	18	99	(19)	6	33	102	(15)
Deferred taxes, net	6	33	38	5	26	(8)	111
Erosion on long-term debt, convertible bonds and bank deposit, net	37	203	(377)	(17)	(94)	(737)	1,470
Decrease (increase) in accounts receivable - trade	(59)	(321)	1,171	(21)	(116)	491	184
Decrease (increase) in accounts receivable - other	(110)	(602)	(4,358)	(89)	(484)	(4,761)	458
Decrease (increase) in inventory	51	278	(1,707)	(10)	(52)	(1,020)	(1,974)
Decrease (increase) in inventory - work in progress	210	1,150	-	68	371	-	(1,348)
Increase in accounts payable - trade	454	2,481	7,003	219	1,199	4,173	2,565
Increase (decrease) in accounts payable - other	148	827	(705)	(822)	(4,484)	1,442	135
	891	*4,887*	*1,766*	*(577)*	*(3,140)*	*22*	*3,108*
Appendix B - Non cash transactions							
Payables related to property and equipment	31	170	374	31	170	374	1,521
Conversion of convertible bonds	-	-	-	-	-	-	13,325

(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 June 30, 2004, and for the six and the three months then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of December 31, 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. <u>Starting point for the preparation of financial statements</u>

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. <u>Financial statements in reported amounts</u>

a) <u>Definitions</u>
<u>Adjusted amount</u> - 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.
<u>Reported amount</u> - 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:

	Israeli CPI	**Exchange rate of one U.S. dollar**
As of	**Points (*)**	**NIS**
June 30, 2004	181.09	4.497
June 30, 2003	181.09	4.312
December 31, 2003	178.58	4.379

Change during the period	**%**	**%**
June 2004 (six months)	1.41	2.69
June 2004 (three months)	1.51	(0.68)
June 2003 (six months)	(0.51)	(8.97)
June 2003 (three months)	(1.28)	(8.00)
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 adjusted NIS amounts for the last reported period have been translated in EURO by dividing each adjusted NIS amount by the representative rate of exchange of the EURO as at June 30, 2004 (EURO 1 = NIS 5.4657).

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

1st. Revenues

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Operations	***For the six months period ended June 30,***	***For the six months period ended June 30,***		***For the three months period ended June 30,***	***For the three months period ended June 30,***		***For the year ended December 31,***
	2004	**2004**	**2003**	**2004**	**2004**	**2003**	**2003**
	(unaudited)	**(unaudited)**		**(unaudited)**	**(unaudited)**		**(audited)**
				(in thousands)			
	Convenience translation into Euro	**Reported NIS (1)**	**Adjusted NIS (2)**	**Convenience translation into Euro**	**Reported NIS (1)**	**Adjusted NIS (2)**	**Adjusted NIS (2)**
Products	2,570	14,048	9,987	1,330	7,270	5,209	21,181
System integration projects	2,531	13,836	7,156	1,305	7,137	4,097	19,125
Other	37	200	-	37	200	-	-
	5,138	*28,084*	*17,143*	*2,672*	*14,607*	*9,306*	*40,306*

B. Segment results

Products	1,080	5,905	4,143	592	3,238	2,294	8,888
System integration projects	590	3,222	1,253	274	1,495	727	3,464
Other	-	1	-	-	1	-	-
Unallocated corporate expenses	(1,219)	(6,661)	(6,026)	(623)	(3,406)	(2,869)	(11,831)
Operating profit (loss)	*451*	*2,467*	*(630)*	*243*	*1,328*	*152*	*521*

(1) See note 2.

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

Note 4 - Capital raising at the Tel - Aviv stock exchange

On May, 2004 the company issued a series of convertible bonds at the amount of NIS 35 million, NIS 0.02 per bond, payable in four equal payments starting at May 23, 2007.The bonds are linked to the USD - NIS exchange rate, and bear variable interest of LIBOR (for six month period) plus 2.5% per annum.The bonds conversion is allowed at any time since the day it was listed to trade until May 9, 2010 in a way that NIS 9 bonds can be converted to one ordinary share of the company.

In addition the company issued a series of one million 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 7.55, the amount is linked to the USD - NIS exchange rate. The warrants can be exercised since the day it was listed to trade until May 23, 2008.

In addition the company issued 800,000 ordinary shares of NIS 0.02 each.

The net amount raised (after a deduction of offering expenses) amounted to aproximately NIS 34 million.