UNITRONICS (1989) (R"G) LTD.

PRESS RELEASE
Airport City, Israel,
March 21, 2005

*****For Immediate Release*****

Unitronics Published its Annual Report for the Year 2004

Airport City, Israel – March 21, 2005 – Unitronics published today the attached Annual Report pursuant to the requirements of Israeli law, in connection with its Annual Report for the Year 2004.

For a convenience translation into Euro of the NIS amounts detailed in the financial statements of the Company, see chapter C - "Financial Statements" in the attached.

About Unitronics

Unitronics (1989) (R"G) Ltd. is an Israeli company that designs, develops, produces and markets Programmable Logic Controllers (PLCs), the computer 'brains' that enable control of automated production lines, storage systems and machines. Unitronics' products include controllers designed to enable bi-directional man-machine interaction through simple user-friendly interface (including integrated graphic operator interface), as well as products embedded with Internet and Intranet capabilities, intended for remote diagnostics and communications on the Internet and Ethernet/LAN levels, and GSM enabled PLC's designed to allow remote control and m-commerce solutions. Unitronics' international distribution network composes of in excess of 50 distributors spanning Europe, America, Israel and the Far East, as well as in excess of 60 sales representatives in most of the states of the USA, whose efforts are coordinated and supported through Unitronics' wholly owned US subsidiary, Unitronics, Inc..

For more information you can contact Eyal Saban, Vice President and Chief Technology Officer on +972 3 977 8888 (investors@unitronics.com) ;

This press release contains certain forward-looking statements and information relating to the Company that are based on the beliefs of the Management of the Company as well as assumptions made by and information currently available to the Management of the Company. Such statements reflect the current views of the Company with respect to future events, the outcome of which is subject to certain risks and other factors which may be outside of the Company's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein as projected, anticipated, believed, estimated, expected or intended

Unitronics (1989)(R"G) LTD.

2004 – Periodic and Annual Report

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

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

1.1 General

Company's Name:	Unitronics (1989) (R"G) Ltd. (hereinafter: the "**Company**" or "**Unitronics**")
Company No.:	520044199
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(Reg. 25A)	
Date of Balance Sheet: (Reg. 9)	December 31, 2004
Date of Report: (Regs. 1 and 7)	March 20, 2005

Description of the general development of the Company's business

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

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

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

The Company operates from facilities comprising approx. 1,800 square meters in the "**Unitronics House**", an office and industrial building situated at Airport City near the David Ben Gurion Airport, where the Company leases approx. 1,600 square meters from the Israel Land Administration since August 2000 and rents approx. 200 square meters from a controlling shareholder since August 2004.

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

1.3 Sectors of activity

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

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

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

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

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

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

In November and December 2003, the Company and the said bondholders entered into an appendix to the Original Bond Agreement under which such agreement was amended and the terms of the Bonds revised (hereinafter: the **"Appendix to the Original Agreement"**). Pursuant to the Appendix to the Original Agreement, the exercise price of the Bonds was modified at a 4:1 ratio, namely, from a price of € 4.73 per share, to that of € 1.1825 per share (average market price at that time). Within this framework, such bondholders converted € 2,250,000 in principal amount of Bonds into Ordinary Shares, at a price of € 1.1825 per share (*in lieu of* € 4.73 per share), waiving interest or other payments with respect to the sum converted.

In consequence of the aforesaid conversion 1,902,748 Ordinary Shares were issued, representing approx. 17.5% of the Company's issued and paid up share capital following the conversion. The balance of the Bonds' principal (in the sum of approx. € 750,000) remains payable/convertible at revised terms, the essence of which is as follows: (a) Annual repayment at a rate of 6.63% (repayment at a rate of 115% of the principal sum, in addition to interest payments at a rate of 4% per annum up to February 2006, inclusive, and subsequently at a rate of 8.13% per annum); (b) Repayment in ten quarterly installments (principal + interest) as of May 2006; (c) the unpaid principal is convertible into Ordinary Shares at an exercise price of € 4.73 per share, reflecting a possible allotment of up to 158,562 Ordinary Shares; (d) Listing the conversion shares for trading on the Stock Exchange in Belgium, which was already performed.

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

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

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

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

1.5 Distribution of dividends

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

Other information

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

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

	For the year ended December 31		
	2004	**2003**	**2002**
		NIS Thousands	
	Reported	Adjusted	Adjusted
Revenues:			
Products	29,883	21,181	13,818
Systems	31,263	19,125	6,916
Other	625	-	-
(*) Total revenues	61,771	40,306	20,734
Sector costs			
Products	20,462	16,069	13,183
Systems	26,329	16,650	6,450
Other	511	-	-
Total	47,482	32,719	19,633
Sector results			
Products	9,241	5,112	635
Systems	4,934	2,475	466
Other	114	-	-
Total	14,289	7,587	1,101

Non-attributed expenses	(9,193)	(7,066)	(7,641)
(*) Operational profit (loss)	5,096	521	(6,540)

(*) In compliance with the financial statements

	As at December 31	
	2004	2003
	NIS thousand	
	Reported	Adjusted
Assets utilized by the sector:		
Products	14,056	9,334
Systems	4,377	3,883
Others	183	-
Unappropriated	75,370	28,554
(*) Total assets	93,986	41,771

(*) In compliance with the financial statements

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

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

Industrial automation is being implemented at an increasing rate in a variety of industries, including process industries (the food, drink, pharmaceuticals, chemical, paper, and fuel industries), production systems (production machinery, automated tools), energy manufacture systems (power stations of all kinds), logistics systems (storage, conveying and distribution systems) building control systems (air conditioning, heating, energy control, access control, warning and security systems), transportation systems (vehicles, aviation and shipping, traffic control), etc.

The Company believes that the need for automation is attributable, amongst other reasons, to the increasing complexity of industrial processes; the increase in the volumes and types of the activities and the information required to manage them; the aspiration to improve the efficiency of processes (optimization) and to increase the availability of means while implementing safety rules; and the desire to economize on manpower and manual intervention. Automation products are intended to address these requirements, including rapid response to the changing needs of the market, simplicity of design and of operation, connectivity to organizational management systems (ERP), high reliability and time between malfunctions (MTBF), high availability, as well as savings and efficiency.

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

The Company's activities include, as explained above, the activities of the products department (design, manufacture, and marketing of PLCs) and the activities of the systems department (design, construction, and maintenance of automated logistic systems, mainly automated warehouses and distribution centers). The Company's management believes that these two sectors of activities are influenced by the increasing need for the application of automation resulting from the factors explained above, and by the state of the world and local economies and their general influence on various industries. It is reported, for example, in the above market surveys of an expected average annual increase, of between 4.5% and 5% in sales of PLCs throughout the world in coming years (up to 2008), where certain sectors, such as the consumer products industry are presented there as being influenced less by the state of the world economy than others, such as the food and drink industries As to which the IMS report indicates an expected continuation of an average rate of growth of 7.3% per year, and an average rate of increase of 10.9% per year for building PLCs, in both cases until 2008.

Additional trends in the global automation market are the economic growth and accelerated industrial development of certain geographic regions in the world, such as China and East European countries, which show enhanced activity in establishing production capacity and local enterprises, and increasing introduction of automation into such enterprises.

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

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

Description of the Company's business by sectors of activity

1.8 General

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

1.9 General information regarding the sector of activity

1.9.1 The products' sector – programmed controllers (PLCs):

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

1.9.1.1 Current and anticipated volumes of the PLCs market

According to the IMS Report (see above), the global PLCs market is estimated at approx. $ 5.98 billion in 2003, and is expected to total approx. $ 7 billion by 2008. The ARC Report (see above) likewise evaluates the global PLCs market at approx. $ 6 billion in 2003 and anticipates a similar growth to approx. $ 7.5 billion by 2008. The earlier Frost & Sullivan Report, evaluated the market at approx. $ 6.7 billion already in 2001, and even anticipated a growth as large as $ 9 billion in 2007 (this report preceded the global economy crises in the years 2001 to 2003). These sources estimate that the average annual growth rate of the global PLCs market totals and is anticipated to total approx. 4.5% to 5%, taking account of several trends as follows:

a. <u>PLCs of various sizes:</u> The quality and type of the external devices that can be connected to and controlled by a PLC define its dimensions as a nano PLC, micro PLC, small PLC, medium PLC and large PLC. As stated in section 1.10.1 below, the Company focuses in the products' sector on nano, micro, and small PLCs, that have, based on the sources quoted above, the relatively highest rates of growth. According to Frost and Sullivan these are 11.3% per year for nano PLCs, 10.3% per year for micro PLCs, and 4.9% per year for small PLCs. According to the ARC report an increasing trend is noticeable whereby consumers implement PLC-based automation solutions that are regarded virtually as off-the-shelf products, where nano and micro PLCs are even sold as commodities, and in some cases the manufacturer is unaware of their final use.

b. <u>Areas of Application:</u> Concurrently with the increasing need for automation as clarified above, the global and local economy impact on the market, as reflected, *inter alia*, in the projected development of the market during upcoming years at different rates in the various industrial areas, as set out in section 1.7 above.

c. <u>Geographical sectors:</u> Examination of the geographical distribution of sales of PLCs around the world in recent years shows that, in general, about one third of sales take place in Europe, about one third in North America and about one third in the Far East and the rest of the world (according to the Frost & Sullivan Report). Concurrently, economic growth and industrial development in certain regions in the world, such as China and East European counties, in the field of establishing production capacity and local enterprises, and the increasing introduction of automation into such enterprises, give rise to expectations of higher growth rates in such regions. Thus, for instance, the IMS Report estimates that towards the year 2007 the annual growth rate of sales of PLCs in China is expected to reach approx. 20% and thus exceed expected growth rates in prominent industrial countries such as Germany, United States and Japan.

1.9.1.2 <u>Standards</u>

The manufacture and/or marketing of products in the field of control and automation are subject to various standards in different parts of the world, some of them general to the field of electronics and some more specific to the field of control. In this context the relevant standards are mostly EN-50081-1 and EN-50082-2 (for electro-magnetic compatibility), European safety standards (such as the CE standard), and American and Canadian safety standards (such as the UL/cUL 508 standard). For details regarding compliance of Company products with these standards, see section 1.29.3 below.

1.9.1.3 Technological changes

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

1.9.1.4 Barriers to entry and exit and success factors

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

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

1.9.1.5 Competition

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

1.9.1.6 Anticipated changes in market volume and profitability

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

1.9.2 The logistic systems sector:

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

1.9.2.1 Sector of activity

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

1.9.2.2 Standards

The activities of the Company's systems department and certain of the components of the logistics systems in whose establishment it engages are

[1] The information concerning the possibility of decline in the profitability of companies engaged in the field of PLCs, including Unitronics, is forward-looking information. The primary facts and data which served as the basis for this information are those presented in several market surveys in this field as set out in sections 1.7 and 1.9.1 above, in particular information concerning the forecast of development of the PLCs market on the one hand, the competitiveness in the sector and the competitors active therein on the other hand, as well as the Company's estimate concerning possible decline in the market prices of PLCs. The primary factors likely to result in such information not materializing are: market growth at rates different than expected; involvement on the part of the key competitors in this market that differs from that anticipated; and the development of sub-markets in the field of PLCs, while at the same time various producers augment professionalism and focus in their own unique niche markets, which may moderate a possible decline in prices.

designed in accordance with various standards including the subjects of earthquakes, lifting devices, electrical devices, safety standards, and conveying standards. For further details see section 1.29.3 below.

1.9.2.3 Technological changes

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

1.9.2.4 Competition

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

1.9.2.5 Anticipated changes in the scope of operations and profitability

The logistic systems market in Israel is a highly competitive market. The Company finds itself competing for each project against several companies from Israel and international companies who are leaders in their field. The market in Israel is relatively small and many rival companies compete over the few projects implemented in this field every year. Economic growth and a relative improvement in the economic situation in Israel, concurrently with the increasing complexity of business activities which the automated logistic systems are designed to handle, is, in the Company's estimate, expected to increase the number of projects implemented in Israel in this field, including the number of projects to be implemented by the Company[2]. However, at the same time the

[2] The information concerning the possibility of growth in the number of projects to be implemented in Israel in the logistic systems sector, including the number of projects to be implemented by the Company, is forward-looking information. The primary data which served as the basis for this information are the assumption that economic growth and relative improvement in the economic situation in Israel, concurrently with the increasing complexity of the business activities with which the automated logistic systems are aimed to cope, will impact on the demand in this field. The primary factors likely to result in such information not materializing are lack of improvement in the economic situation in Israel and/or in the world (or insignificant improvement) and/or the refraining of businesses from investments at large and investments in automated logistic systems in particular notwithstanding

Company estimates that in consequence of extensive competition in this field, profitability may be reduced in the future[3].

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

1.10 Products and services

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

1.10.1.1 PLCs and extension units

The Company designs, develops, manufactures, markets, and sells several series of PLCs based on a CPU for computer embedded industrial systems, that coordinates the variety of command, control, and telecommunications operations executed by the PLC. The Company's PLCs also incorporate an integral Human-Machine Interface (HMI) component, that is intended to permit the operator to control the PLC itself, and through it instrumentation controlled and monitored by the PLC. This interface may differ from one series of products to another in terms of its nature and complexity, and includes a data display (alpha-numeric and/or graphic), programmable keys and/or a keyboard and/or a touch screen. The PLC communicates with external components (such as the production devices themselves, motors, or sensors) by means of built-in physical connections (a type of socket, similar to phone or computer sockets) intended for data input and output. The PLC's input/ output capabilities (the number and type of devices that may be connected) define its dimensions as a nano PLC, micro PLC, small PLC, medium PLC, or large PLC. The PLC's I/O capabilities may be expanded using external expansion units and thus upgrade its functioning (as described below). The Company's PLCs have been designed for compatibility with the different protocols of line and wireless communications,

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relative improvement in the economic situation, *inter alia*, in view of cutting expenses and/or on grounds of changes in policy of maintenance and/or management of inventories and/or on grounds of delay or absence of recognition on the part of the market of the advantage of automated logistic systems. Further, inasmuch as this information pertains specifically to the Company, other factors can result in such information not materializing, such as the Company's failure to compete with its competitors, and the other risk factors enumerated in section 1.39 below.

3 The information concerning the possibility of a decline in profitability in the systems sector is forward-looking information. The primary facts and data which served as the basis for this information are those presented in section 1.9.2.4 above concerning competition in this sector and the competitors active therein. The primary factors likely to result in such information not materializing are: involvement on the part of the key competitors in this market that differs from that anticipated and/or changes in the mix between components of software, hardware and mechanics in logistic systems which impact on profitability, as well as development of sub-markets in the logistic systems sector, while at the same time various producers augment professionalism and focus in their own unique niche markets.

including by means of the Internet (remote control and access, from inside and outside the organization, by means of a computer, with no physical connection), Intranet (PLC-PLC communications and/or PLC-computer communications inside the organization), and by means of a cellular phone (access to information and/or to means of control without a physical connection and without a computer, using cellular phone infrastructures, e.g. by means of SMS messages or by transmitting files over various telecommunications networks, such as GPRS, CDMA, GSM, CDPD, and others). The communications capability of the PLCs is intended to permit monitoring, management and control of systems, and processes not only from the site in which the PLC is installed (production floor, logistics warehouse, etc.) but also from other stations, including the management offices, or even from outside the organization's premises. The main series of PLCs and expansion units manufactured by the Company include:

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

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

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

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

The Company’s products focus on the range of up to 153 I/O points. In the future the Company may extend its activities to the field of larger PLCs permitting the operation of a larger number of I/O points, although at the date of this report the Company has no specific plans or timetables for same.

1.10.1.2 Programs

a. PLC software programs: The Company develops and markets, as a package together with its PLCs, software operating programs for PLCs that may be used to program the operating interfaces of the PLC itself and its operation, as well as the command and control operations of the PLC for instrumentation to which it is connected. The Company's U90™ software serves the PLCs of the M90/M91 series, and the Company's VisiLogic™ software serves the PLCs of the Vision™ series. These software programs operate in the Microsoft Windows environment and are designed to permit non- professionals to program, in an intuitive and accessible manner, both the operating interface of the PLC itself at the operator's convenience, and the PLC tasks regarding system components in the machine or equipment that the PLC is intended to control. These software programs provide access to programming tools, including self-design or import of graphic icons, text messages, menus in various forms, and adaptation of the display to the varying conditions of the process being controlled.

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

b. Programs for management of logistics systems and production floors: The Company developed and markets, as a package together with the logistics systems that it constructs, and also as stand-alone products, software programs for the management of warehouses, marketed under the name UniStock^{TM}, intended to enable supervision, control and management of automatic and/or manual warehouse systems (a program known in the industry as 'WMS' – Warehouse Management Systems), including control of inventories, orders, issues, and distribution, as well as operation and synchronization of disposition of the automatic conveying systems and handling of mini terminals (a program known in the industry as 'MFC' – Material Flow Control). The Company also has a software program for management of production floors marketed under the name UniTrack^{TM} (intended to permit command, control and management of the production apparati, including data collection from the production apparati, processing of the data, and coordination of production resources). These software programs operate in the Microsoft Windows environment, under client-server architecture, and are designed to support several languages (including Hebrew) and communications with organizational ERP systems. These software programs may be installed and implemented As-Is similar to other application programs, without the need for software adaptations to accommodate unique needs. It is however possible to customize them to the specific and unique requirements of each user.

1.10.1.3 Trends and changes – products

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

The Company invests in development of new products designed to meet the changing needs of customers in the PLC market. These products replace and are designed to continue replacing the Company's legacy products that have been sold for five years or more, in ever diminishing volumes, concurrently with the increase in sales volumes of the new generation products. The average age of the Company's products in the products sector is only about two years, less than the average life span of PLCs in this market, which figure is among the Company's considerations as regards investing in R&D activity in recent years.

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

1.10.2.1 Computerized production and/or logistic systems

The major components of logistics system include the following:

a) Storage and retrieval components (a mechanical system, generally comprising modified, dedicated, controlled and automated cranes designated for dedicated rails, that perform the storage, retrieval, and conveying tasks).
b) A shelving system installed along the crane rail(s).
c) A conveying system for transporting the loads to and from the automated storage system.
d) Command and control systems for the mechanical components of the logistics system, including PLCs, sensors, and control software programs.

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

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

The services of the systems department are provided pursuant to agreements whose terms vary on a case-to-case basis. These generally incorporate a list of defined and detailed tasks, technical and functional specifications which the system being set up is required to meet, schedules (generally ranging from 3 to 15 months for setting up the system, in accordance with its complexity and other factors which vary on a case to case basis) and payment installments according to work progress. Under these agreements the Company is generally required to furnish guarantees (mostly bank guarantees) to secure performance of its obligations. As of the date of the report, the Company furnished bank guarantees as aforesaid in a cumulative total sum of approx. NIS 2,432 thousand. The Company further undertakes to train the customers' employees to operate the system, and extends a 12-month warranty period on average for the major components of the system, which generally includes an undertaking to commence attending to certain malfunctions within predefined timetables, commitment as to service against payment at the end of the warranty period, and undertaking as to availability of spare parts for defined periods.

In order to perform certain of the tasks in accordance with these agreements (mainly the supply and installation of cranes, rails, conveyors, and shelving) the Company usually retains specific sub contractors, mainly the German company SSI Schaefer Noell Gmbh (hereinafter, "**SSI**"), and others. The principal terms of the agreements with the sub contractors are in most cases assumption of the Company's commitments under the agreement with the customer (back-to-back) regarding the system components supplied by the sub contractor.

1.10.2.2 <u>Trends and changes – systems</u>

The Company's services in the systems sector are primarily focused in the Israeli market. The Company has no statistical data and/or market surveys pertaining to this field. From past experience based on activity in this field in recent years, the Company believes that a trend of increasing penetration of these technologies into various organizations in Israel can be indicated. Further, in the Company's estimation the increase in the number of automated warehouses reported to have been installed in the Israeli market in recent years constitutes an indication of this trend. The Company estimates that various macro-economic considerations including real-estate costs, manpower costs, transportation considerations and the distance of distribution centers from population centers, may enhance the establishment of automated logistic technologies in the Israeli market.

On the other hand, one of the significant characteristics of this activity is a relatively considerable financial scope of a limited number of orders for services that are non-recurring in nature. This characteristic creates a high exposure of sales volumes and profitability of the systems sector and the Company generally, to the influence of a relatively small number of projects to be implemented in the Israeli market at any given time.

Many companies are involved in the automated logistic systems market, some of which do not have independent systems of their own for technical support and customer service (unlike the Company, as set out below), which assists them in competing with the Company's prices, given the lower cost basis and at times lower profit targets. The combination of these factors may detrimentally affect the Company's ability to compete with its competitors in this sector and materially prejudice the Company's revenues and profits from the systems sector and in general.

Concurrently with the Company's activity in Israel in the systems sector, the Company is examining prospective strategic collaborations outside of Israel (at the initial stage primarily in Europe), intended to develop additional markets for the services of the systems department. This activity is still only in its initial stages and there can be no assurance that this process will develop into actual business activity, nor as to the terms of such activity and its effect on the Company, in the event that it does in fact materialize.

1.11 Revenue segmentation and profitability of products and services

The Company's revenues from its activity in the products sector constitute approx. 48%, 53%, and 67% of its total revenues in 2004, 2003 and 2002 respectively. The various series of the Company's major products contribute to its profitability with no material differences among them.

The Company's revenues from its activity in the systems sector constitute approx. 51%, 47%, and 33% of its total revenues in 2004, 2003 and 2002, respectively. The majority of the revenues from this activity are from customers entering with the Company into transactions that are non-recurring in nature, for the purpose of setting up one system only. The contribution to the profitability of the Company's operations in the systems sector varies from transaction to transaction, primarily according to the Company's status as a principal contractor (generally characterized by a greater financial scope and lower profitability, mainly due to requiring sub-contractors), or as a sub-contractor (generally characterized by lower financial scope and higher profitability, mainly due to the use of the Company's own resources), the technical and functional requirements unique to each and every transaction and the results of negotiation with the customers on a case to case basis.

Below are data on the consolidated revenues and gross profit of the Company, from the products sector and from the systems sector, for the periods specified:

	Revenues from sales and services for the year ended December 31		
	2004	**2003**	**2002**
	In NIS thousand (*) (and percentage of total revenues gross profit, approximated)		
Products (**)	29,883 (48%)	21,181 (53%)	13,818 (67%)
Gross profit (scope and rate)	15,702 (53%)	10,359 (49%)	6,078 (44%)
Systems	31,263 (51%)	19,125 (47%)	6,916 (33%)
Gross profit (scope and rate)	5,886 (19%)	3,464 (18%)	949 (14%)

(*) The financial data for 2002 and 2003 are in NIS thousand, adjusted to December 2003.

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

1.12 New products

The Company, through its R&D staff, engages in the development of new technologies and products and the upgrading and improvement of existing ones. There can be no assurance that the development of these technologies and/or products will be completed, or that if completed, will gain market recognition.[4] The following is a summary review of the major technologies and products in various stages of development in the Company.

1.12.1 WilCo ™ – command and control via dispersed PLCs: At the time of publication of the report, the Company's R&D activities include a series of products designed to permit command and control by means of a network of dispersed PLCs linked together by physical and/or wireless communication, intended to allow flexible and modular configurations of industrial command and control facilities. The major elements of the system are as follows:

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

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

[4] The information concerning completing the development of these products and recognition thereof by the market is forward-looking information. The primary data which served as a basis for this information are the development stages at which this technology stands as of the date of the report, which do not allow yet to indicate significant technological feasibility at competitive market prices, the need for further significant investments in R&D expenses, of the availability of which to the Company, in the scopes required by it or at all, there can be no assurance, as well as the need to educate markets and consumers in the use of decentralized PLCs systems and/or the developed technologies. The primary factors likely to result in such information not materializing are completion of the development phases that would indicate high probability of technological feasibility at competitive market prices, as well as the development of markets and consumer culture accommodating decentralized PLCs and/or technologies developed by the Company.

applications suitable for several PLCs, without the user being required to program each PLC separately, but only to perform central programming. The system of PLCs will then be dedicated to permit distribution of tasks and definitions between the various PLCs that form its different units, in an independent manner transparent to the user, as though this was a single PLC.

c) WebAx-Control ™ – A network access platform: A network access platform intended to permit the development of command and control applications using a PLC network without specific professional knowledge of programming or of communications networks. This is intended to be a device for communications between PLCs, based on the Internet and friendly for operation by a non-professional user, and is designed to permit, amongst other things, sending messages and information in real time, sending files and data, loading and downloading of programs as required, and remote access.

The Company is progressing in the stages of development of the WilCo ™ technology, and has completed several milestones that include various design activities and the beginning of the development of sub systems of components of the technology. The WebAx-Control™ component is in advanced stages of development and certain of its components may be commercially launched during 2005.[5] The Company submitted in September 2004 a patent application to the Patents and TradeMarks Office in the US, regarding certain aspects of the WilCo ™ technology, as well as an application to register a patent in accordance with the international Patent Cooperation Treaty (PCT) (see section 1.21 below). The Chief Scientist in the Ministry of Industry and Commerce participated in the funding of the development program related to this technology (see below).

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

Amongst other things, the Company plans to develop additional series of PLCs and/or new PLC products intended to allow the Company to provide its

[5] The information concerning prospective commercial launching of components of the WilCo™ technology is forward-looking information. The primary data which served as the basis for this information are analysis of the actual progress of the development phases, analysis of the Company's capability of marketing such portions of the technology and the potential for their absorption into the markets. The primary factors likely to result in such information not materializing are: the scope of investments required for this activity which may significantly deviate from the Company's budgets in these issues; restrictions as to the ability to commercialize these technologies at competitive market prices; and the absence of development of markets and consumer culture accommodating the use of the developed technologies; all in addition to the general risks set out in section 1.39 below.

customers with PLCs in dimensions exceeding the existing range of the Company's products.[6] These products are planned to include products smaller than the existing products as well as additional ones that will permit expanding the Company's product line to include larger products intended to offer command and control solutions for systems larger and more complex than those intended to be controlled by the Company's existing products. The aim of this process, amongst other things, is to expand the basket of Company products and permit customers to purchase additional products that they are currently purchasing from the Company's competitors. The broader product line is also intended to expand the circle of the Company's customers by providing access to new potential customers.

1.12.3 "Shelving" Company products: The Company is taking steps to increase the level of "shelving" (converting a product into an off-the-shelf product) of the Company's management and control software programs, that are used in the field of logistics systems (such as the UniStock ™ package), in a manner designed to significantly reduce the need to specifically customize software to meet the customer's needs.[7]

1.13 Customers

1.13.1 Company's customers: The direct customers of the products department are mainly distributors associated with the Company by means of distribution

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6 The information concerning development of products exceeding the Company's current range of products is forward-looking information. The primary data which served as the basis for this information are development plans of the Company relying, *inter alia,* on analysis of market surveys as set out in sections 1.7 and 1.9 above; analysis of market requirements and consumer preferences as reflected through the Company's direct contacts with the markets; technological feasibility; the Company's estimates as to the R&D costs required to finance implementation of the developments; and the extensive competition in this field as set out herein. The primary factors likely to result in such information not materializing are: the scope of investments required in this activity, which may significantly deviate from the Company's budgets for these issues; limitations on the ability to commercialize these technologies at competitive market prices, if at all; the failure in development of market and consumer culture accommodating the use of the developed technologies; and the superior financial and technological means available to a significant portion of the Company's competitors; all in addition to the general risks set out in section 1.39 below.

7 The information concerning projected changes in the management and control software programs and the ability to reduce reliance on software adaptations specific to users' needs is forward-looking information. The primary data which served as the basis for this information are analysis of market surveys as set out in sections 1.7 and 1.9 above; analysis of market requirements and consumer preferences as reflected through the Company's direct contacts with the markets; technological feasibility; R&D costs required to finance the implementation of changes; and extensive competition in this field as set out herein. The primary factors likely to result in such information not materializing are: the scope of investments required in this activity which may significantly deviate from the Company's budgets for these issues; limitations on the ability to upgrade such software programs as required for marketing same as an off-the-shelf product; and the superior financial and technological means available to a significant portion of the Company's competitors; all in addition to the general risks set out in section 1.39 below.

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

The direct customers of the systems department are generally the end-user, in most cases industrial and/or logistics businesses, generally in the private sector (although in a few cases these are customers from the public sector, including the defense branches), who engage the Company to order an individual system. The Company has no assurance of acquiring new customers in the systems sector of a certain magnitude, if at all. Customers of the systems department generally retain the Company's services in order to design a single new automatic system and/or to construct a system at the customer's site and provide services and support for the system after it is rendered operational. In certain cases the Company's services are retained for the treatment, improvement, upgrading, or enhancement of an existing system at the customer's site. The services of the systems department are currently provided mainly in Israel, to customers in a wide range of fields, including food processing, pharmaceuticals, import/ export warehouses, logistics centers, etc. In some cases the party retaining the Company is the principal contractor hired by the end-user to integrate an entire system, who retains the Company's services as a sub contractor in order to carry out specific tasks only, such as the design of the system only, or the installation of PLCs in the system only.

1.13.2 Principal customers: 10% or more of the Company’s consolidated revenues in the periods set out below derive from a limited number of customers who are, in terms of the products department, a distributor in a defined territory, and in terms of the systems department, customers ordering automated logistic systems who enter into a transaction with the Company that is non-recurring in nature and whose termination, also pursuant to the terms thereof, if not replaced by new customers of similar purchases scopes, may materially and detrimentally affect the Company’s revenues (the respective share of these customers is presented below both in terms of the products or the systems department, as the case may be, and in terms of the Company’s general revenues):

	Revenues from principal customers for the year ended December 31					
	2004		2003		2002	
	Rate of total revenues (in percentage terms)					
	From sales of Products/ Systems department	From general Company revenues	From sales of Products/ Systems department	From general Company revenues	From sales of Products/ Systems department	From general Company revenues
Customer A (Products department)	10%	5%	10%	5%	18%	12%
Customer B (Systems Department)	11%	5%	75%	36%	42%	14%
Customer C (Systems Department)	33%	17%	0%	0%	0%	0%
Customer D (Systems Department)	23%	12%	0%	0%	0%	0%
Total sales of Products department to Department's principal customers	10%	5%	10%	5%	18%	12%
Total sales of Systems department to department's principal customers	67%	34%	75%	36%	42%	14%

1.13.3 Agreements with principal customers of the Systems Department: As aforesaid, material portions of the Company's revenues in the systems sector originate from a limited number of principal customers entering into transactions with the Company which are non-recurring in nature. Below are the principal terms of the agreements between the Company and such customers, revenues from whom constitute 10% or more of the Company's consolidated income in the above periods, in addition to the general terms customary in such agreements as set out in section 1.10.2 above:

a. Material agreement B: Pursuant to an agreement from November 2002 between the Company and principal customer B (Maman Cargo Terminals & Handling Ltd.) the Company undertook to design, develop, produce and erect a system for the storage and conveying of cargo in a total amount of approx. € 3.1 million, plus VAT. With the customer's consent, certain of the securities placed by the Company for securing its obligations under the agreement were provided by SSI Schafer Noell GmbH (hereinafter:

"**SSI**") which served as a sub-contractor of the Company within the ambit of this agreement. The Company completed the installation of the system and the customer completed the payment of the full consideration in accordance with the terms of the agreement in 2004.

b. Material agreement C: Pursuant to an agreement from February 2004 between the Company and principal customer C, the Company undertook to design, develop, produce and set up an automatic warehouse system in a pharmaceutical factory in a total amount of approx. € 3.3 million, plus VAT. Pursuant to the agreement the bank guarantees for securing the Company's obligations were provided by SSI, which serves as a sub-contractor of the Company in this project. SSI further provided the customer with a self guarantee for securing the Company's obligations under the agreement with such customer.

As part of the sub contracting agreement between the Company and SSI, the Company undertook to provide SSI with a self-guarantee against the self-guarantee provided by SSI to the customer. In addition mechanisms have been agreed with SSI for the command and control of the consideration payments (not including VAT) to be made to the Company in accordance with the agreement with the customer, in order to secure the payments due to SSI from the Company.

As of the date of the report, the Company is in the advanced stages of mechanical installation at the customer's site and has commenced installation of the control components of the system; up to this stage the customer has paid approx. € 2.6 million (plus VAT) of the agreement amount. Installation of the system is scheduled to be completed pursuant to the terms of the agreement, as amended by the parties, in the course of the second quarter of 2005.

c. Material agreement D: Pursuant to the agreement from July 2004 between the Company and principal customer D, the Company undertook to design, supply, and install an automatic logistics system in the customer's factory in Israel, who engages in the import, processing, and marketing of metal raw materials and products. According to the agreement the system will be based on PLCs and additional software and command tools of the Company, as well as other assemblies and components to be supplied and installed directly by various sub contractors, under the supervision of the Company. In accordance with the agreement, as revised from time to time after its signature (on the last occasion in January 2005), the accumulated amount of the contract (linked to the Euro) is estimated to be at the time of the report about NIS 23.5 million plus VAT, subject to the work and the equipment supplied, amongst other things by the sub contractors. On the date of the report installation began at the site; up to this stage the customer had paid about 912,000 euros (plus VAT) of the amount of the contract. The completion of the Company's work is planned to be finished, in accordance with the terms of the agreement with the customer, during the second quarter of 2005.

1.14 Marketing and distribution

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

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

1.14.2 Distributors:

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

The Company's agreements with its distributors generally grant exclusive distribution rights in defined territories for limited periods (usually one year), renewable subject to specific minimum sales. The distributors purchase the Company's products, usually as per the Company's price list, and sell them at prices at their discretion. The Company generally grants its distributors 30 to 60 days credit, and requires securities such as a bank guarantee or letters of credit (with the exception of the United States). The distributor is generally required to provide end-users with a 24-month warranty, backed by the Company's liability *vis-à-vis* the distributor for the same period of time. These agreements may generally be terminated at any time by a notice of either party, are generally governed by Israeli Law and by an arbitration mechanism for settlement of disputes.

1.14.3 Material distributor: The Company's revenues from one of the distributors of its products constituted 5%, 5% and 12% of its general revenues in 2004, 2003 and 2002, respectively. Pursuant to an agreement with such distributor from November 2001, it served as exclusive distributor of the main series of the Company's PLCs in a defined territory, for a 12-month term, automatically extended to four additional terms of 12 months, subject to meeting the requirements of specific minimum orders. Pursuant to the agreement the distributor is obligated to keep minimum quantities of inventory, to provide a bank guarantee or a letter of credit to secure payment of its orders, to refrain from selling competing products during the term of the agreement (and in certain cases also for a limited period after the termination thereof) and to confidentiality during and after the agreement term. The distributor is further obligated to provide service for 24 months to customers who purchase the Company's products from it, against the Company's corresponding obligation *vis-à-vis* the distributor. The agreement is mutually terminable in the event of breach and dissolution, and otherwise, by a prior 9-month notice.

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

1.15 Orders backlog

As of December 31, 2003 the Company did not have an orders backlog for the products department; as of December 31, 2004 and as of March 1, 2005 the Company had an immaterial orders backlog of approx. \$624 thousand and approx. \$405 thousand for the products department, respectively. The immaterial orders backlog of the products department is in conformity with the Company's policy which is adjusted to the nature of activity in this market, which is based on purchases primarily from inventory and off-the-shelf from distributors. The sale of services of the systems department involves a long-term sales cycle, requiring a significant investment of time and effort, including participation in presentations and tenders, alongside other participants, the services themselves lasting several months (3-15) according to the complexity of the system. Below are data on binding agreements for the services of the systems department for periods as follows:

	Agreements concerning performance of services by the systems department as of 31.12.2004	
	In NIS thousand	
Services ordered for Q1 2005	10,122	
Services ordered for Q2 2005	10,495	
Services ordered for Q3 2005	8,654	
Services ordered for Q4 2005	310	
Total	29,581	

Agreements concerning performance of services by the systems department as of March 1, 2005 amounted to an aggregate of approximately NIS 32,168 thousand.

1.16 Competition

1.16.1 To the best knowledge of the Company and primarily on the basis of the Frost & Sullivan Report, which indicates about 70 companies defined as "key competitors", three categories of key competitors in the global world of industrial PLCs can be defined:

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

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

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

In the systems sector the Company competes with several Israeli and multi-national companies that offer services of design, installation, upgrading, and maintenance of industrial systems, mainly automatic warehouses and logistics systems, including companies from the Siemens, Swisslog, and Viastor Groups.

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

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

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

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

1.17 <u>Seasonality</u>

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

1.18 <u>Production capacity</u>

1.18.1 <u>In the products sector</u>: Since 2001 the Company has expanded its production activities using sub contractors and has reduced its own production activities, with the aim of reducing costs and improving timetables. The Company has diverted to sub contractors mainly the manufacture of the plastic components in its products (such as the casings of the PLCs and the expansion units), and the automatic placement of about 98% of the components of the electrical circuits (PCBs). The Company itself assembles, using its staff and its facilities in Airport City, about 2% of the components of the electrical circuits, and generally itself performs the final assembly of the product, its electrical testing, calibration, and packing. Using sub contractors to carry out most of the production stages is also intended to improve the possibilities of growth and flexibility due to the high production capacity using existing sub contractors and the ability of adding additional sub contractors when required (subject to the learning and assimilation curve, described below). Regarding production activities carried out in the Company, at the date of this report this production capacity was exploited to a large degree. The Company has the capability of increasing its production capability for these activities when required, because of the option of directing to these tasks unskilled manpower that is regularly available, and requires a short training period only.

The Company generally has no written agreements with sub-contractors for production, it is not bound by any framework arrangements with them and it hires their services as needed on an *ad hoc* basis. The business terms usually applicable between the Company and its production sub-contractors consist of open credit without guarantees, payment on the basis of current month + 60 days, predefined delivery time (one to two weeks), and prices subject to quantity discount. The Company's payments to the primary production sub-contractor in 2002, 2003 and

2004 constituted 5.5%, 3.8% and 3.8% respectively of the total Company expenses for raw materials and sub-contractors in those years. Payments to other sub-contractors in those years were of insignificant scopes per each contractor. The Company is not dependent on specific production sub-contractors and therefore can retain numerous and various contractors to that end. However, the replacement of a current sub-contractor with a new one might involve delays arising from a learning curve and assimilation of the Company's needs and/or use of unique production components adjusted to the Company's needs (e.g. moulds for casting the plastic casings of the PLCs).

1.18.2 In the systems sector: Production capacity is in fact the Company's ability to implement logistic projects of the scopes and on the dates ordered, and is primarily based on the Company's internal staff, whose number was significantly increased in the years 2002-2004 (as set out in section 1.22 below), concurrently with an increase in the Company's activity in this sector. As of the date of the report the Company is fully exploiting this production capacity, taking account of existing agreements for the setting up of logistic systems in the course of 2005. The Company adapts its production capacity in this sector (including absorption and expansion of staff) in accordance with the agreements for the setting up of logistic systems which are actually entered into from time to time.

1.19 Fixed assets and facilities

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

1.19.1 Unitronics House – lease from the Administration: The Company leases the ground floor (including a basement) and first floor (hereinafter: the "**Company's Floors**") in the Unitronics House, covering an area (excluding basement) of approx. 1,600 square meters gross, and about one dunam in an adjacent plot serving as a parking lot for the Unitronics House. Pursuant to an agreement of August 23, 2000 with Airport City Ltd. the Company purchased a capitalized leasing right (91%) in the Company's Floors for 49 years, which are to be registered in its name not later than November 2007. As of the date of the report the Company's rights have not yet been registered with the Israel Land Administration. The Company's rights in the Unitronics House are pledged as security against finance obtained by the Company for acquiring its rights in the building as set out in section 1.26.3 below. The balance of the reduced cost of the Company's Floors as of December 31, 2004 is approximately NIS 19,721 thousand. In its ongoing activity the Company uses all areas of the Company's Floors in the Unitronics House. The remaining floors in the Unitronics House (floors 2 to 4) are leased from the Administration by a company controlled by the controlling shareholder of the Company who also serves as the Chairman of its Board of Directors and CEO (hereinafter: the "**Private Floors**"), and are let to third parties, apart from approx. 200 square meters which are let to the Company (as set out below).

1.19.2 Unitronics House – lease from a controlling shareholder: In addition to the Company's Floors which are utilized by the Company in full, as of August 2004 the Company has rented approx. 200 square meters on the Private Floors, at terms identical to the terms at which areas on the Private Floors are let to third parties, which also reflect rental terms as customary at the Airport City in general. The lease is for a term of three years, with an option for the Company to extend it for two additional terms of 12 months each. The rent is \$12.5 per m^2 per month (plus management fees to Airport City at \$ 1 per square meter per month, and \$2 management fees per square meter per month to the Company's subsidiary, Unitronics Management, with respect to the management of the Unitronics House), subject to a 4% increase at the end of every two years of lease. The Company may terminate the agreement at any time subject to the introduction of a substitute tenant acceptable to the landlord.

1.19.3 Unitronics Inc.: The subsidiary, Unitronics Inc., rents offices near Boston, Massachusetts, covering a total area of approx. 1,650 square feet (approx. 155 square meters), let for a 12-month term ending in December 2005, for annual rent of approx. \$35,000.

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

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

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

1.20 Research and development

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

	For the year ended December 31		
	2004	2003	2002
	In NIS thousand (*)		
Salaries and related expenses	3,111	2,184	2,199
Sub contractors	172	509	610
Other expenses	1,251	609	646
Less contribution of Chief Scientist	(365)	(247)	-
Total R&D expenses	4,169	3,055	3,455

(*) The financial data for the years 2002 and 2003 are in NIS thousand, adjusted to December 2003.

During 1992 to 2004 the Chief Scientist at the Ministry of Industry and Trade (hereinafter: the "**Chief Scientist**") participated in the finance of the Company's R&D plans under the Encouragement of Industrial Research and Development Law. 5744-1984 (hereinafter: the **"R&D Law"**). Below is a breakdown of the plans approved by the Chief Scientist's office in process and/or which still bind the Company:

Subject of Plan	Date of Approval	Approved R&D expenses	% of grant	Amount of grant	Performance period
Four plans for previous generation PLCs whose sales constituted an immaterial percentage of the Company's revenues in 2003 and 2004	1997 - 1992	NIS 4,695,535	30%-50%	NIS 1,888,221	1997 - 1992
Wilco PLC	July 1 2003	NIS 1,644,268	40%	NIS 657,707	May 1, 2003 to Apr. 30 2004

The Company is required to pay royalties to the Chief Scientist at 2% to 5% of sales of products developed with the Chief Scientist's assistance, pending repayment of the total grants (and in respect of grants obtained as of January 1999 – plus interest at LIBOR rate). Under the terms of the Chief Scientist's contribution to the financing of the WilCo^{TM} series, the Company must pay royalties on sales of products of the WilCo^{TM} series as well as on its revenues from other products affiliated with the WilCo^{TM} technology.

The letters of approval are subject to compliance with the provisions of the R&D Law, the regulations and the rules promulgated thereunder and to performance of the R&D plans as prescribed in the applications within the performance period and while reporting and obtaining approvals with respect to changes in holdings and controlling means in the Company, as well as transfer of controlling means in the Company to an overseas resident or a foreign company. In this context the Company is subject to further restrictions, such as refraining from overseas production of products based on technology developed with the assistance of the Chief Scientist, and from the transfer of such technology to overseas or to third parties, other than with the approval of the Chief Scientist. Up to December 31, 2004 grants to the Company under these plans were approved in a total sum of NIS 2,473 thousand. From 1992 to 2004 the Company paid royalties to the Chief Scientist in a total sum of NIS 103 thousand (of which approx. NIS 12 thousand from 2001 to 2004). The balance of the Company's liabilities to the Chief Scientist for royalties as of December 31, 2004 is approx. NIS 2,370 thousand.

1.21 Intangible assets

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

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

1.21.2 Patent applications: In September 2004 the Company submitted a patent application to the United States Patent & Trademark Office with respect to specific aspects of the WilCo^{TM} technology (see above), further to the submission of a provisional patent application in September 2003. The Company submitted concurrently an application for registration of a patent under the international Patent Cooperation Treaty (PCT). As of the date of the report no patent has as yet been registered pursuant to these applications.

1.21.3 Application for registration of trademarks: In August 2004 the Company submitted to the United States Patent & Trademark Office an application to register the name "Unitronics" and the Company's logo as trademarks. As of the date of the report these trademarks have not as yet been registered pursuant to these applications.

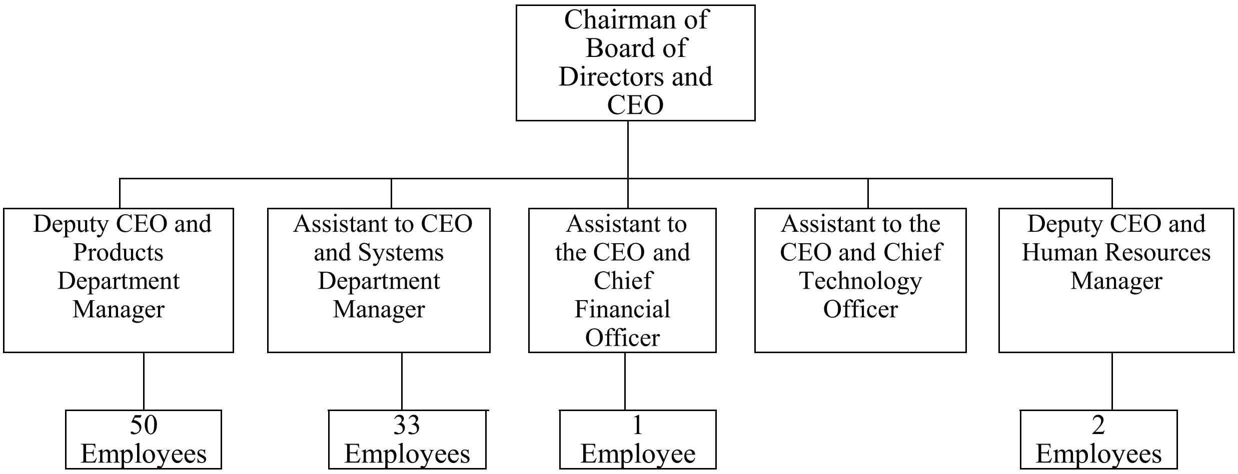
1.21.4 Domain names on the Internet: The Company purchased rights to use "domain names" whereby it presents information about itself, its products and related matters. The Company uses these sites for communication with current and prospective customers. As is customary, the Company is entitled to continue using these sites exclusively so long as it pays annual usages fees (in immaterial amounts) to the company maintaining the site. The domain names used by the Company are as follows:

http://www.unitronics.com	http://www.unitronics.co.il	http://www.unitronics.net
http://www.webplc.com	http://www.webplc.net	http://www.webplc.org
http://www.unitronic.com	http://www.oplc.net	

1.21.5 Expenses: In 2004, 2003 and 2002 the Company expended immaterial amounts (approx. NIS 61, 16, and 1 thousand, respectively) for acquisition and preservation of its intellectual properties.

1.22 Human capital

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



1.22.2 Company employees and their distribution: As of the date of the report the Company employs 92 employees in Israel; the subsidiary, Unitronics Inc. employs 3 employees (without written personal employment agreements), and the subsidiary Unitronics House Management & Holdings (2003) Ltd. does not employ any employees. Below is the distribution of the Company's employees in Israel at present on the basis of area of activity:

Area of Activity	**No. of Employees**
Marketing and sales	12
Research and development	20
Administration	9
Production and quality control	24
Integration and support	27
Total	92

As of December 31, 2003 the Company employed 61 employees in Israel, the subsidiary Unitronics Inc. 2 employees and the subsidiary Unitronics House Management and Holdings (2003) Ltd. did not employ any employees. As of December 31, 2002 the Company employed 47 employees in Israel, and the subsidiary Unitronics Inc. 2 employees. At such time the subsidiary Unitronics Management and Holdings (2003) Ltd. has not yet been incorporated.

The Company doubled its workforce in the course of 2002 to 2005 as set out above, in accordance with an increase in its activity and in order to provide for its business plans. The primary increase in manpower was in the fields of research and development, integration and support, and marketing and sales, in accordance with the emphases during those years on activity in research and development, growth in the Company's activity in the logistic systems sector and expansion of the Company's marketing and support channels.

1.22.3 Terms of employment: Most of the Company's employees work on the basis of written personal employment agreements, incorporating customary obligations as to confidentiality, non-competition and protection of the Company's intellectual properties. The Company's obligations in respect of payments due upon termination of employment are partly covered via contributions to senior employees insurance policies. For the balance of the liabilities an appropriate provision is made in its financial statements.

Employment relationships between the Company and its employees are governed by the provisions of the general collective bargaining agreement applicable to the metal, electricity and electronics professions by virtue of an extension order. The provisions of the collective bargaining agreement primarily pertain to maximum working hours, minimum wages, provisions to pension funds, cost of living bonus (under the Consumer Price Index), various insurances (in the event of sickness or work accidents), manners of dismissal, severance pay and other provisions pertaining to terms of employment. The Company generally provides terms of employment which are equal to or better than the minimum terms provided in the collective bargaining agreement.

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

1.22.4 Officeholders and officers of the Company:

a. The Company is bound by personal employment agreements with Mr. Haim Shani (controlling shareholder and Chairman of the Board of Directors) and with Ms. Bareket Shani (Mr. Shani's wife, who also serves as a member of the Board of Directors) up to December 2008, subject to extension for additional periods of five years each. Pursuant to the agreements Mr. Shani serves as the Company's CEO and Ms. Shani serves as Deputy CEO and Human Resources Manager. Under the agreements Mr. and Ms. Shani are entitled to: (a) A monthly salary in the sum of $15,000 and $7,500, respectively; (b) Options in an amount not less than 115% of the amount granted to the most senior employee in the Company after Mr. Shani and Ms. Shani, respectively, subject to all approvals required under any law; (c) customary social benefits such as senior employees insurance (contributions of 5% of monthly salary by the employee and 13.33% by the Company), study fund (contribution of 2.5% of monthly salary by the employee and 7.5% by the Company, use of Company car and refund of expenses, (d) annual leave of 30 days which may be accumulated over a period of two years only. The termination of the agreement with Mr. Shani is subject to approval of 75% of members of the Board of Directors and a prior notice of at least 6 months. Mr. Shani may terminate the agreement for any reason whatsoever subject to a prior 3-month notice. In respect of Ms. Shani, each party may terminate the agreement by a 2-month notice, and the Company will be required to provide a material explanation for dismissal, if initiated by the Company. Mr. Shani and Ms. Shani agreed (voluntarily) to a decrease of 5% in their wages for a period of 12 months as of January 1, 2003.

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

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

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

d. The Company's Assistant to the CEO and Chief Technology Officer provides services via a service company under his control, against management fees of a fixed amount. The management company is obligated to pay social contributions in relation to his employment, and all obligatory payments under any law, and to compensate Unitronics for any loss or damage incurred by it due to a determination that an employer-employee relationship exists between the service provider and Unitronics. The service provider personally guarantees the service company's obligations.

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

1.23 Raw materials and suppliers

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

Regarding a small number of items that represent about 1-2% of the components in most of the products (representing immaterial amounts in purchases in the years 2002, 2003, and 2004) although standard off-the-shelf components that could be purchased from suppliers in or out of Israel, there is dependence on a single manufacturer for the supply thereof. (The manufacturer is Infineon Technologies AG, a member of the Siemens AG group.) Although such components may be installed in Company PLCs even if made by other manufacturers, this might involve structural and functional changes, and various modifications of the hardware and software that are liable to cause delays and customizing costs. In order to reduce this dependence the Company enters into annual orders, and in a few cases minimum stock maintenance agreements, with several different suppliers, in order to ensure availability and continuous supply of these components. The Company has no sole supplier of raw materials from whom it purchases 10% or more of the annual cost of its raw materials and sub contracting services.

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

On isolated occasions (raw materials originating from a single producer) the Company enters into a minimum inventory holding agreement with certain suppliers, under which the supplier undertakes to maintain an inventory at a specific rate of the Company's annual consumption (adjusted on a quarterly or a monthly basis), exclusively earmarked for supply to the Company at set prices. Under these agreements the Company is obligated to purchase the minimum inventory even if not ordered or at the end of the agreement (except in the case of items whose price has increased). These obligations are for immaterial sums for the Company. Several of these agreements are for unspecified periods and the termination of activity thereunder in respect of specific items is subject to prior notice.

1.24 Working capital

1.24.1 Inventory: The Company currently holds about 60-75 days' of components and raw materials inventory for expected requirements for a period of about two months. In addition the Company holds finished products inventory for supplying current orders for about 30-45 days. Company policy is generally to hold finished products inventory based on actual orders or on internal forecasts currently carried out and updated by the Company. The Company may deviate from this policy from time to time, mainly when preparing for unusual events or in response to the behavior of the raw materials markets in the world. (For example, in cases of fear of possible temporary shortages of electronic components throughout the world and/or limited allocations of components by the component manufacturers in certain cases of excess demand.) The Company estimates that its spare parts inventory is sufficient to supply the needs of its customers. The Company manages the processes of production, purchasing of raw materials, raw materials inventory and finished products inventory through a general management program that is used in parallel by the Company's purchasing, production, and inventory facilities, in addition to financial management and accounting (ERP – Enterprise Resource Planning). The Company has no policy regarding the return of products and has not yet been required to do so.

1.24.2 Customers: The Company generally provides warranty for its products for periods ranging from 12 to 48 months. The customers of the Products Department generally benefit from a credit of 30 to 60 days. With respect to the Company's Systems Department, the Company generally provides warranty for the main components of the systems of 12 months on average. Customers of the Company's Systems Department generally benefit from credit of up to one month for each installment.

1.24.3 Scopes of credit: Below are data on average scopes of suppliers' credit on a quarterly basis, as well as sub-contractors' and customers' credit in 2004:

	2004	
	Average scope of credit in NIS thousands	Average credit days
Customers (products)	3,050	37
Customers (systems)	4,742	55
Suppliers (products)	2,202	69
Suppliers (systems)	192	64
Sub-contractors (products)	465	71
Sub-contractors (systems)	2,985	61

1.25 Investments

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

1.26 Finance

1.26.1 The Company's activity is financed from the Company's equity and from external finance sources. The Company's external finance sources (in NIS thousand) are as follows (the data below also include the loan specified in section 1.26.2 below):

Type of Credit	**As at December 31, 2004**	
	Scope of Credit	Interest
Short-term credit from banks (current account)	13	16.6%
Long-term credit from banks ($)	5,233	4.66 - 4.9%
Long-term credit from banks (NIS)	6,275	6.7%
Index-linked leasing loans	668	6 - 11.23%
Convertible bonds (dollar linked)	33,402	LIBOR + 2.5%
Convertible bonds (euro linked)	4,850	4%

The Company has current credit (excluding the credit for finance of acquisition of the Company's rights in the Company's Floors as set out below) in a total sum of approx. NIS 5,400 thousand of which approx. NIS 2,430 thousand have been utilized, primarily in respect of providing bank guarantees to secure the Company's liabilities under agreements in the systems sector as aforesaid, and unexploited balances in the sum of approx. NIS 2,970 thousand as of December 31, 2004 and as of the date of the report. From December 31, 2004 the Company has not taken any credit of a substantial scope. Pursuant to the terms of the principal credit facility among these facilities from a bank in Israel (in a total sum of approx. NIS 5,000 thousand) the Company undertook neither to create nor to undertake to create pledges on its assets without the bank's consent, so long as any sums are payable to that bank on account of such credit. This credit facility is up to June 30, 2005 only, unless the bank agrees otherwise. There can be no assurance that these credit facilities will be renewed or that substitute credit facilities will be extended to the Company, at similar terms or at all. Furthermore, within the framework of the credit documents between the Company and part of the banks in Israel, the bank's consent is required in the event of certain changes in the shareholders of the Company.

1.26.2 The acquisition of the Company's rights in the Company's Floors at the Unitronics House was primarily financed through a credit facility in a total sum of approx. NIS 13,735 thousand extended to the Company by the Industrial Development Bank of Israel Ltd. (hereinafter: the "**Bank**"), pursuant to the finance terms agreed between the parties on July 12, 2000, which were amended from time to time, which are mainly (repayment balance) as of the date of the report, as follows:

Amount	**Repayment Date**	**Terms of Repayment**

NIS 240,000	January 31, 2005	NIS loan at basic CLA interest customary at the bank + 0.5%
NIS 210,000	July 30, 2005	NIS loan at basic CLA interest customary at the bank + 0.5%
NIS 210,000	January 31, 2006	NIS loan at basic CLA interest customary at the bank + 0.5%
NIS 210,000	July 30, 2006	NIS loan at basic CLA interest customary at the bank + 0.5%
NIS 5,405,040	July 30, 2006	NIS loan at basic CLA interest customary at the bank + 0.5%
US$ 28,923	42 quarterly installments from February 2005 to May 2015	$ loan at LIBOR + 1% to 1.5% interest

The debit balance at the Bank as of the date of the report for the finance concerning the acquisition of rights in the Company's Floors is approx. NIS 11,508 thousands.

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

1.27 Taxation

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

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

b. In January 2003 the Company received approval for another investment plan under an alternative benefits program the essence of which is investment in the sum of $683,600 for expansion of the Company's plant for production of PLCs subject to compliance with the terms of the approval (in essence, at least 30% of the investments in fixed assets to be financed by additional paid-up share capital, compliance with intellectual property laws and submission of reports to the Investments Center and to the tax assessing officer as required by law). The approved date for implementation of the plan is up to January 2005. The Company completed implementation of the plan in December 2004, and has not yet submitted a summary report to the Investments Center.

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

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

1.27.2 Weighing results for tax purposes under the Income Tax (Adjustments by Reason of Inflation) Law, 5745-1985 (in this section: the "**Adjustments Law**"): the Company is assessed under the Adjustments Law, pursuant to which the results are weighed for tax purposes on a real basis, taking account of the index rise. Under Amendment No. 14 to the Adjustments Law of November 14, 2001, the provision of Section 32(B1) of the Adjustments Law prescribes that the Minister of Finance, subject to the approval of the Knesset's Finance Committee, may provide in an order that if the rate of the index rise during a tax year does not exceed or has not exceeded, as the case may be, 3%, all or any of the provisions of the Adjustments Law shall not apply thereto, as may be prescribed, or that the rate of the index rise shall be treated as 0% for that tax year, as well as the adjustments required in view of such determination. At the decision of the Minister of Finance and the Knesset's Finance Committee, the Adjustments Law was applied in 2003.

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

1.27.4 Rates of tax on income other than from the "Approved Enterprise": The Company's income other than from the Approved Enterprise as aforesaid, and the income of the subsidiary, Unitronics Management, are subject to tax at the ordinary rate of 35% (2005 – 34%, 2006 – 32%, 2007 and subsequently – 30%).

1.27.5 Tax assessments: The Company has tax assessments which are considered final up to the 1999 tax year, inclusive. No final tax assessments have yet been issued to the subsidiaries Unitronics Management and Unitronics Inc. from the date of their incorporation.

1.27.6 Carry forward losses: The balance of the Company's carry forward losses for tax purposes as of December 31, 2004 total approx. NIS 28,500 thousand. No deferred taxes have been recognized for such losses.

1.28 Environmental issues

Irrelevant.

1.29 Restrictions on and supervision of the Company's activity

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

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

1.29.3 Standards and quality control: The Company’s PLCs from the M90/M91 and Vision™ series, as well as certain of its external expansion components, comply with the EN-50081-1 and EN-50082-2 standards for electro-magnetic compatibility (function of electronic components in an environment of electro-magnetic radiation). The Company accordingly marks these products with the CE mark. Most of the Company’s PLCs from the M90/M91 series, the Vision™ series, and a major part of the external expansion components comply with the requirements of the UL/cUL 508 standard (safety aspects, including fire, temperature resistance, and electrical safety). The Company accordingly marks these products, and products largely based on them, with the UL/cUL marking. The Company operates a lab for testing the functioning of finished products, including mechanical and operational characteristics, and software components. This lab maintains contact with other test labs in and out of Israel.

The activities of the Company's systems department regarding the supply, installation, maintenance, and upgrading of conveying systems, automatic warehouses, and control systems, comply with the requirements of ISO 9001, version 2000. Certain components of the logistics systems constructed by the Company's systems department, are designed in accordance with various standards, including Israeli Standard IS 413 on the subject of earthquakes (regarding the structure of the warehouse and the shelves array); standards for lifting facilities such as IS 1202 (lifting facilities – steel cables, for cranes and elevators); and standards for electrical installations and other safety installations. The compliance of systems constructed by the Company with the requirements of these standards is generally checked by professional investigators who are independent of the Company, individually for each system, as part of their completion for delivery to the customer. In Israel specific standards also apply to the field of conveyor systems defined by the association of European manufacturers of conveying equipment, that amongst other things, define the functionality of installations and systems.

Compliance with the above standards is a binding legal requirement for the purpose of marketing the Company’s products and services in certain of the Company’s target markets, while in others it is a market demand although not a formal legal requirement. There can be no assurance that the Company will comply with the requirements applicable to its products and services with a view to meeting the requirements of those standards or any other standards, where required, and failure to comply with the requirements of such standardization might limit the Company's ability to market its products in certain of its target markets.

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

1.30 Material agreements

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

1.30.2 Acquisition of rights in the Company's Floors in the Unitronics House: On July 23, 2000 the Company entered into an agreement concerning the purchase of rights on certain floors in the Unitronics House as set out in section 1.19.1 above pursuant to the finance terms set out in sections 1.26.2 and 1.26.3 above.

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

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

Company (subject to adjustments). The bonds (series 1) were issued under the Israeli Prospectus at 95% of the par value thereof.

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

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

1.31 Collaboration agreements

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

1.32 Legal proceedings

As of the date of the report the Company is not party to material legal proceedings, either as plaintiff or as defendant.

1.33 Objectives and business strategy

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

With a view to realizing these objectives, the Company plans to continue improving existing products as well as developing new products, on the basis of continuous analysis of users' needs and market trends, market surveys conducted from time to time, as well as responses from its distributors and customers[8]. The Company further plans to continue developing and intensifying the international marketing infrastructure which it set up, *inter alia* through continued supervision and follow-up of the activity of existing distributors, identification of new distributors in new territories or, where the replacement of an existing distributor is required, professional training and instruction for distributors on issues related to the Company's products, and gathering of relevant information[9]. Another factor is striving to enhance customer satisfaction and loyalty through efforts to sell quality products and backing them up with suitable support and maintenance services.

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

1.33.2 <u>In the systems sector:</u> The Company strives to position itself as a leading entity in the field of automated logistic systems in Israel and to expand its activity in this field overseas via export of its technological capabilities. Indices for examining

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[8] The information concerning improvement of existing products and development of new products is forward-looking information. The key data which served as the basis for this information are analysis of market needs and consumers' preferences as reflected through the Company's direct contacts with the markets, technological feasibility, and costs of potential developments as well as the high competition in this field as set out herein. The primary factors likely to result in such information not materializing are the scope of investments required to finance this activity, which may significantly exceed the Company's budgets for these issues, limitations upon development of new technologies and difficulties in their commercialization, and the superior financial and technological means available to a significant portion of the Company's competitors, which may assist them to compete against the Company with greater success.

[9] The information concerning development and intensification of the Company's marketing system in the products field is forward-looking information. The key data which served as the basis for this information are analysis of characteristics of the marketing and markets of the Company's products as conducted by the Company from time to time and the increasingly evolving nature of PLCs as shelf products and consumer products as set out herein. The primary factors likely to result in such information not materializing are the lively competition in this field, potential difficulties in identifying appropriate distributors, who have capability and experience in the Company's products sector and are willing to enter into distribution arrangements with the Company under the terms customary at the Company.

success in fulfilling these objectives include, *inter alia*, number of installations (systems set up with its participation) annually in Israel and overseas, quantity and volume of sales of technologies and management products to customers and other entities overseas with which the Company collaborates in operations in this field, satisfaction of customers and the business entities with which the Company interacts, and the overall contribution of the systems sector to the Company's profitability.

In order to attain these goals, the Company plans to continue improving the level of "shelving" (turning into off-the-shelf products) of the management and control software programs of its logistic systems and continue developing and improving these products on the basis of continuing market trends, market surveys conducted from time to time, and responses from customers and business entities with which it interacts[10]. The Company further plans to continue developing and intensifying the marketing method of the systems sector in Israel and the business development activity *vis-à-vis* overseas entities with which there is a potential for collaboration in the systems sector outside Israel – particularly in Europe at the initial stage[11].

The Company concurrently plans to continue from time to time looking into business opportunities in Israel and worldwide that will enable enhancement of its activity in both marketing and technological terms. There can be no assurance as to the terms of realization of such opportunities and/or whether they will become available to the Company at all.

1.34 Forecast of development in the upcoming year

The Company estimates that it may be difficult to keep up with the rate of growth in sales which has characterized recent years. In order to proceed with growth in sales in the Company's activities, greater investment is required than in the past in R&D and in marketing, in order to present to current and other prospective

[10] The information concerning improvement of existing products and the development of new products in the systems field is forward-looking information. The key data which served as the basis for this information are analysis of market needs and consumer preferences as reflected through the Company's direct contacts with the markets, technological feasibility, and costs of potential developments as well as lively competition in this field as set out herein. The primary factors likely to result in such information not materializing are the scope of investments required to finance this activity, which may significantly exceed the Company's budgets for these issues, limitations upon development of new technologies and commercializing them at competitive prices in the field, as well as superior financial and technological means available to a significant portion of the Company's competitors.

[11] The information concerning developing and intensifying the Company's marketing system in the systems field is forward-looking information. The key data which served as the basis for this information are analysis of characteristics of marketing and markets of the Company's services conducted by the Company from time to time and the protracted and complex process of these services as set out herein. The primary factors likely to result in such information not materializing are lively competition in this field and the need to identify distributors and/or prospective collaborations with appropriate business entities having capability and experience in the systems sector.

customers more competitive and efficient products designed to provide an appropriate solution to those offered by the Company's competitors.

In the products sector, the Company intends to develop, amongst other things, additional series of PLCs and/or new PLC products, as described in section 1.12.1 above.[12] In the systems sector the Company is diverting additional resources to marketing activities and the penetration of specific export markets, with the intention of expanding the scale of its target markets for these activities in order to reduce its dependence on the Israeli market. As part of this process the Company is evaluating making investments during 2005 in the development of a new products line[13] intended to permit the Company to sell command and control kits, that will include hardware and software, intended for use by customers outside Israel who wish to reduce the costs involved in the implementation of control systems for automatic logistics systems. At the same time the Company plans to continue during 2005 the development and strengthening of its marketing organization for the systems sector in Israel and business development activities with foreign entitites, as described in section 1.10.2.2 above, in the first stage mainly in Europe.[14]

1.35 Information on irregular change in the Company's business

None (save for the extension of principal agreement D in the normal course of the Company's business as set out in section 1.13.3.c. above, during the period subsequent to the date of the financial statements).

1.36 Event or issue deviating from the Company's normal business

[12] The information concerning development of new products is forward-looking information. For details regarding the major data which served as the basis for this information and those likely to result in this information not materializing, see section 1.12.2 above.

[13] The information concerning development of a new line of products in the systems field is forward-looking information. The key data which served as the basis for this information are analysis of market needs and consumer preferences as reflected through the Company's direct contacts with the markets, technological feasibility, and costs of potential developments as well as lively competition in this field as set out herein. The primary factors likely to result in such information not materializing are the scope of investments required to finance this activity, which may significantly exceed the Company's budgets for these issues, limitations upon development of new technologies and commercializing them at competitive prices in this field, as well as the superior financial and technological means available to a significant portion of the Company's competitors.

[14] The information concerning development and intensification of the Company's marketing system in the systems field is forward-looking information. The key data which served as the basis for this information are analysis of characteristics of marketing and markets of the services provided by the Company's systems department as conducted by the Company from time to time and the protracted and complex process of these services as set out herein. The primary factors likely to result in such information not materializing are lively competition in this field, and the need to identify appropriate distributors and/or prospective collaborations with appropriate business entities having capability and experience in the systems sector.

None.

1.37 Other forecasts and estimates regarding the Company's business

None.

1.38 Financial information regarding geographical sectors

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

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

1.39 Discussion of risk factors

Below is a breakdown of the risk factors affecting the Company, and the estimate of the Company's management as to the extent of the affect thereof on its business:

Type of Risk	Nature of Risk	Evaluated extent of affect on Company
Macro Risks	*Exposure to fluctuation in the markets:* The Company is exposed to changes in general factors affecting the main markets in which it operates, such as the slowdown in business activity in Israel and in the world and the affects of security-related events in Israel and worldwide.	High
	Exposure to interest risks: The Company is exposed to changes in Prime and LIBOR interest rates in connection with various loans as set out in section 1.26 above.	High
	Currency exposure: The Company is exposed to changes in the exchange rates of the US$ and the €, as set out in section 2.3 below.	Medium
	Exposure to investment in negotiable securities: The Company is exposed to changes in the rates of securities in which a material portion of its financial means is invested, as set out in section 2.3 below.	Medium
	Exposure to strikes at Israel's ports: Strikes at Israel's sea and/or airports might delay import of raw materials utilized by the Company (including components of logistic systems) and/or export of the Company's products overseas, thereby compromising delivery dates undertaken by the Company, which in turn is liable to result in expenses to the Company and/or compromise to its goodwill.	Low
Sector Risks	*Competition:* The Company is exposed to competition from entities with resources and goodwill exceeding those available to the Company, as set out in sections 1.16 and 1.10.2.2 above.	High
	Raw materials: The Company is exposed to risks arising from possible temporary worldwide deficiencies in electronic components and from limited allocations of components by components manufacturers in certain events of surplus demand, as set out in section 1.23.	High
	Development of new technologies and/or products: The Company is exposed to risks related to development of new products and/or technologies whose successful development and/or marketing are uncertain, as set out in section 1.12 above.	Medium
	Standardization: The Company is exposed to risks arising from non-compliance of its products or services with specific standardization requirements, as set out in section 1.29.3.	Medium
Company-specific Risks	*Principal customers:* Material portions of the Company's income originate from a limited number of principal customers entering into material transactions with the Company that are non-recurring in nature, as set out in sections 1.13 and 1.14.3 above.	Medium
	Dependency on the Israeli Market: The Company's activity in the systems sector is dependent on the Israeli market, which is inclined to be more affected by the aforesaid macro and sector risks than markets overseas, and in which the demand for projects is lower than the demand in corresponding markets overseas.	Medium
	Dependency on founder and controlling shareholder: The Company is materially dependant upon the continued services of Mr. Haim Shani, as set out in section 1.22.4 above.	Medium
	No registered intellectual properties: The Company is exposed to risks arising from the lack of registered intellectual properties, as set out in section 1.21 above.	Low

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

Chapter B – Board of Directors Report

On the State of Affairs of the Corporation (T 10 - 10A)

2.1 Summary Quarterly Statements of Operations (Reg. - 10A)

	NIS 000's				
	1-3/2004	4-6/2004	7-9/2004	10-12/2004	1-12/2004
Revenues	13,477	14,607	15,941	17,746	61,771
Cost of Revenues	8,582	9,295	10,452	11,740	40,069
Gross profit	4,895	5,312	5,489	6,006	21,702
R&D expenses, Net	926	1,090	1,052	1,101	4,169
Selling and marketing expenses	1,896	1,689	1,924	2,237	7,746
General and administrative expenses	934	1,205	1,215	1,337	4,691
Operating Profit	1,139	1,328	1,298	1,331	5,096
Financial expenses	617	447	577	552	2,193
Other income	0	0	(48)	0	(48)
Profit before taxes	522	881	769	779	2,951
Taxes on income (tax benefit)	7	26	40	(1)	72
Periodic Profit	515	855	729	780	2,879

2.2 Explanations to the Financial Statements (Reg. 10)

2.2.1 General

The Company engages, through its Products Department, in the design, development, production, marketing and sale of industrial automation products, mainly PLCs, and through its Systems Department, in design, construction and maintenance services within the framework of projects for the automation, computerization and integration of computerized production and/or logistics systems, mainly automated warehouses and automated distribution centers. The Company's PLCs are distributed through over one hundred distributors (and a wholly-owned subsidiary) in about fifty countries throughout Europe, Asia, America and Africa, and the services of the Systems Department are provided mainly to customers in Israel, and in a few cases, also outside Israel.

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

Main Agreements for the Supply of Automated Warehouses and Other Systems

In 2004, and in January – March 2005, the Company entered into a number of agreements for the design and construction of automated logistics systems, with the main ones, in terms of financial scope, being the agreements from February and July 2004, which are described in sections 1.13.3 (b) and 1.13.3 (c) above and the agreement from June 2004 for the supply and installation of a production management system and an overhead conveying system at a soft-drink manufacturer's plant in Israel for total consideration (linked to the Euro) of approx. NIS 3 million, plus VAT, which is planned to be completed in the first quarter of 2005, and an additional agreement from January 2005 for the supply and installation of a warehouse and pallet conveying system at a packaging and plastic product manufacturer's plant in Israel (further to a similar system that was installed by Unitronics for this customer in 2001) for total consideration (linked to the Euro) of approx. NIS 2.5 million, plus VAT, which is planned to be completed during the fourth quarter of 2005.

Issuance of Securities and Listing for Trading

The Company published prospectuses in Israel in May 2004 and in Belgium in July 2004, pursuant to which it issued securities and raised capital from the public, as set forth in section 1.4 above.

2.2.3 The Financial Situation

Assets

The total assets according to the Company's consolidated balance sheet of December 31, 2004, amounted to approx. NIS 93,986,000, as compared to NIS 41,771,000 as of December 31, 2003. This increase is mainly attributable to the growth in cash, cash equivalents, marketable securities and in the Trade Receivables and Inventory item, as set forth below.

In the total of the Cash, Cash Equivalents and Marketable Securities items, growth was recorded from approx. NIS 7,075,000 as of December 31, 2003, to approx. NIS 49,083,000 as of December 31, 2004. This is mainly attributable to the raising of capital from the public in May 2004, through an issuance to the public of the Company's securities, pursuant to the Israeli prospectus as set forth in Chapter A (1.4.3) above.

In the Receivable Trade item, growth was recorded from approx. NIS 4,914,000 as of December 31, 2003, to approx. NIS 6,862,000 as of December 31, 2004. The increase is mainly attributable to the growth in receivables in the Systems sector, whose source lies in the progress of the implementation of existing projects and the commencement of implementation of new projects during 2004.

An increase of approx. 53% was recorded in the amount of the inventory, from approx. NIS 6,379,000 as of December 31, 2003, to approx. NIS 9,785,000 as of December 31, 2004. The increase is mainly attributable to a similar increase in the scope of the Company's sales in this period. The Company holds, on a regular basis, approx. 60 – 75 days of inventory of components and raw materials, which are intended for the forecasted requirements for a period of approx. two months. In addition, the Company has finished product inventory intended to enable the supply of current orders for approx. 30 – 45 days. For further details with regard to raw materials, suppliers and inventory, see Chapter A (1.23 and 1.24.1) above.

As of December 31, 2004, the inventory work-in-progress amounted to NIS 443,000, as compared to NIS 1,348,000 as of December 31, 2003. The change in this item is mainly attributable to expenses in respect of works in progress in the Systems sector and reflects a situation of progress in the implementation of projects on a specific date, only.

The Property and Equipment balance as of December 31, 2004, amounted to approx. NIS 22,620,000 as compared to NIS 20,898,000 as of December 31,

2003. This increase is mainly attributable to adjustments that were made at the offices of the Company in Airport City and to investments in the data security and computing systems infrastructure. For further details with regard to the fixed assets, see Chapter A (1.19) above.

The Other Assets, Net item as of December 31, 2004, amounted to approx. NIS 4,157,000 as compared to NIS 538,000 as of December 31, 2003. This increase is mainly attributable to deferred issue expenses in respect of bonds that were issued to the public pursuant to the Israeli prospectus.

Liabilities

Total short-term credit amounted to approx. NIS 1,127,000 as of December 31, 2004, as compared to NIS 812,000 as of December 31, 2003. This immaterial increase is mainly attributable to an increase in current maturities of long-term loans.

The Accounts Payable - Trade item amounted to approx. NIS 13,730,000 as of December 31, 2004, as compared to NIS 6,256,000 as of December 31, 2003. This increase is mainly attributable to a growth in the Company's sales during the reported period, as described below.

The Accounts Payable - Other item amounted to approx. NIS 7,895,000 as of December 31, 2004, as compared to NIS 5,039,000 as of December 31, 2003. This growth is mainly attributable to an increase in the Expenses for Payment for Operations in the Systems sector item and also from an increase in the Current Liabilities to Institutions item, as a result of the growth in the Company's revenues during the reported period, as described below.

The Long-Term Liabilities item amounted to approx. NIS 50,619,000 as of December 31, 2004, as compared to NIS 17,341,000 as of December 31, 2003. The increase is mainly attributable to a growth in the Convertible Bonds item, which grew following the issuance of the Company's bonds (Series 1) pursuant to the Israeli prospectus, amounting to approx. NIS 38,252,000 as of December 31, 2004, as compared to NIS 4,413,000 as of December 31, 2003.

The Company's working capital amounted to approx. NIS 44,324,000 as of December 31, 2004, as compared to NIS 8,112,000 as of December 31, 2003. The increase is mainly attributable to the raising of capital from the public, conducted by the Company pursuant to the Israeli prospectus. For further details with regard to the working capital, see Chapter A (1.24) above.

The Company's shareholders' equity amounted to approx. NIS 20,615,000 as of December 31, 2004, as compared to NIS 12,323,000 as of December 31, 2003. The increase is mainly attributable to the raising of capital from the public, conducted by the Company pursuant to the Israeli prospectus, and to the Company's net profit during the reported period, as described below.

2.2.3.1 Analysis of the Financial Situation By Sectors of Operations

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

The Products Sector

The total assets used in the Products sector amounted to approx. NIS 14,056,000 as of December 31, 2004, as compared to NIS 9,334,000 as of December 31, 2003. The approx. 51% rate increase is mainly attributable to the increase in the Inventory and Accounts Receivable - Trade items during the reported period. The increase in these items results, in the Company's opinion, primarily from the increase in the scope of product sales during the period, as expressed in the growth in revenues from this sector at a rate of approx. 41% (see below).

The total liabilities in the Products sector amounted to approx. NIS 6,351,000 as of December 31, 2004, as compared to NIS 2,444,000 as of December 31, 2003. The approx. 160% rate increase is mainly attributable to the increase in the Accounts Payable - Trade items, which also arises, in the Company's opinion, from the increase in the scope of product sales during the period, as expressed in the growth in revenues from this sector (see below) and from the need to procure component inventory and raw materials intended for the forecasted requirements.

The Systems Sector

The total assets used in the Systems sector amounted to approx. NIS 4,377,000 as of December 31, 2004, as compared to NIS 3,883,000 as of December 31, 2003. In the Company's opinion, this insignificant change reflects a lower credit day average than in the Products sector (Chapter A 1.24.2) and therefore the increase in the scope of sales of systems in the period (as expressed in the growth in revenues from this sector at a rate of approx. 63% - see below) had only a slight effect on this item.

The total liabilities in the Systems sector amounted to approx. NIS 11,738,000 as of December 31, 2004, as compared to NIS 6,378,000 as of December 31, 2003. The approx. 84% rate increase is mainly attributable to the increase in the Accounts Payable - Trade items, which derives, in the Company's opinion, from the increase in the scope of systems sales during the period (a number of contracts for the supply and installation of automated warehouses that were signed during the reported period) as expressed in the growth in revenues from this sector at a rate of approx. 63% (see below) and from the consequent increase in the amount of the equipment and sub-contracting orders required for installation of the systems.

Assets and Liabilities Not Attributed to Any Particular Sector of Operations

The total assets not attributed to any particular sector of operations amounted to approx. NIS 75,370,000 as of December 31, 2004, as compared to NIS 28,554,000 as of December 31, 2003. This increase is mainly attributable to the raising of capital from the public in May 2004, by means of an issuance to the public of the Company's securities pursuant to the Israeli prospectus, as set forth in Chapter A (1.4.3) above.

The total liabilities not attributed to any particular sector of operations amounted to approx. NIS 55,105,000 as of December 31, 2004, as compared to NIS

20,626,000 as of December 31, 2003. This increase is mainly attributable to the increase in the Convertible Bonds item, which grew following the Company's issuance of its bonds (Series 1) pursuant to the Israeli prospectus.

2.2.4 Operating Results

Revenues

Revenues for the year ended December 31, 2004, amounted to approx. NIS 61,771,000, as compared to NIS 40,306,000 for 2003 (an increase of approx. 53%) and as compared to NIS 20,734,000 for 2002 (an increase of approx. 198%). The continued increase in revenues during the recent thirteen consecutive quarters is mainly attributable, in the Company's opinion, to the following:

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

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

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

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

Cost of Revenues

The cost of revenues amounted to approx. NIS 40,069,000 for the year ended December 31, 2004 (constituting approx. 65% of the revenues in such period) as compared to approx. NIS 26,483,000 for the year ended December 31, 2003 (constituting a similar rate, i.e. approx. 66% of the revenues in the period) and as compared to approx. NIS 13,707,000 for the year ended December 31, 2002 (constituting a similar rate, i.e. approx. 66% of the revenues in the period). The increase in this item is attributable to the growth in the Company's revenues, as explained above, while maintaining similar gross profit rates as set forth below.

Gross Profit

The total gross profit for the year ended December 31, 2004, amounted to approx. NIS 21,702,000 (constituting approx. 35% of the revenues in such period) as compared to approx. NIS 13,823,000 for the year ended December 31, 2003 (constituting approx. 34% of the revenues in such period) and as compared to approx. NIS 7,027,000 for the year ended December 31, 2002 (constituting approx. 34% of the revenues in such period), with no material change between the periods. The increase in this item is attributable to the growth in the Company's revenues, as explained above. For further details with regard to the gross profit in each particular sector of operations severally, see the analysis of the business results by sectors of operations, below. For further details with regard to profitability from products and services, see Chapter A (1.11) above.

Research and Development Expenses, Net

The net research and development (R&D) expenses for the year ended December 31, 2004, amounted to approx. NIS 4,169,000 (constituting approx. 7% of the revenues) as compared to approx. NIS 3,055,000 for the year ended December 31, 2003 (constituting approx. 8% of the revenues) and as compared to approx. NIS 3,455,000 for the year ended December 31, 2002 (constituting approx. 16.7% of the revenues). The R&D expenses in the reported year reflect continued increased development activities of technologies and products required to support the Company's continued growth. For further details with regard to new products and the Company's R&D activities, see Chapter A (1.12 and 1.20) above. During and after the reported period, personnel recruitment continued for the development teams, and the Company believes that further growth can be expected in this item in the coming quarters.[1]

The Company is in the process of developing a new technology (WilCo™), whose development was partially financed by the Chief Scientist of the Ministry of Trade and Industry. The Research and Development Expenses, Net item for 2004 included the deduction of the amount of the Chief Scientist's contribution.

Selling and Marketing Expenses

The selling and marketing expenses for the year ended December 31, 2004, amounted to approx. NIS 7,746,000 (constituting approx. 13% of the revenues) as compared to approx. NIS 6,667,000 for the year ended December 31, 2003 (constituting approx. 17% of the revenues) and as compared to approx. NIS 6,340,000 for the year ended December 31, 2002 (constituting approx. 30.6% of the revenues).

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

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[1] The information with regard to the expected growth in the R&D Expenses item is forward-looking information. The main data constituting the basis for this information are the Company's development plans as set forth in Chapter A (section 1.12), the actual stages of development on the date of the report of the technology being developed at the Company and the need for continued material investments in R&D expenses, to implement the Company's plans. The main factors likely to prevent this information from being implemented are changes in the Company's development plans arising from reasons beyond the Company's control (such as market requirements and consumer preferences, competitors' developments, prices of raw materials and services required by the Company), the lack of budget to finance the expenses required for continued development in general or in the scopes required for the Company, and possible technological difficulties with the completion of the development stages pursuant to these plans.

[2] The information with regard to the expected growth in the Selling and Marketing Expenses item is forward-looking information. The main data constituting the basis for this information are the Company's

General and Administrative Expenses

The general and administrative expenses for the year ended December 31, 2004, amounted to approx. NIS 4,691,000 (constituting approx. 7.6% of the revenues) as compared to approx. NIS 3,580,000 (constituting approx. 8.9% of the revenues) for the year ended December 31, 2003 (an increase of approx. 31%) and as compared to approx. NIS 3,772,000 for the year ended December 31, 2002 (constituting approx. 18% of the revenues).

The general and administrative expenses for the reported year reflect the adjustments required to support the continued growth and the management of the Company's increased activities, and they mainly consist of current expenses in the field of professional consultancy and services and the costs entailed in the fact that the Company's securities were listed for trading also on the Tel Aviv Stock Exchange, effective from 2004.

Operating Profit

The total operating profit for the year ended December 31, 2004, amounted to approx. NIS 5,096,000 (constituting approx. 8.2% of the revenues), an increase of nearly ten times over the operating profit of approx. NIS 521,000 for the year ended December 31, 2003 (constituting approx. 1.3% of the revenues), when the Company shifted to operating profit. The turning point and the shift to operating profit in 2003 were mainly attributable to an increase in revenues of approx. 94% in that year. For the sake of comparison, in the year ended December 31, 2002, the Company reported an operating loss in the amount of approx. NIS 6,540,000.

The growth in operating profit in the reported period is attributable to an increase of over 50% in the revenues, as compared to 2003, after offsetting the adjustments

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marketing activities, including planned attendance at exhibitions and training sessions for distributors, as well as the need for continued material investments in marketing expenses. The main factors likely to prevent this information from being implemented are changes in the Company's marketing plans arising from reasons beyond the Company's control (such as changes at the Company's distributors, changes in the Company's main markets and/or in markets in which the Company is not active and marketing activities of competitors).

made during the reported period in the Development, Selling and Marketing and General and Administrative Expenses items, in order to support the Company's continued growth, as set forth above.

Financial Expenses

The financial expenses for the year ended December 31, 2004, amounted to approx. NIS 2,193,000, as compared to approx. NIS 3,911,000 for the year ended December 31, 2003, and as compared to approx. NIS 2,192,000 for the year ended December 31, 2002.

A significant part of the financial expenses in 2003 were attributable to the strengthening of the Euro compared to the New Israel Shekel and the effect of currency rate changes on euro-denominated financial instruments, such as the convertible bonds that the Company issued, which were in effect at that time. In December 2003, a considerable part of the said bonds were converted into shares of the Company (see Chapter A 1.4.2) and as a consequence, the Company believes that the scope of its exposure to the euro rate fluctuations is expected to decrease.

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

Nevertheless, in the quarters reported during 2004, there was no material increase in the financial expenses, mainly as a result of the financial income component whose source is, primarily, from the Company's investment activities pursuant to the Company's risk management policy as explained below. For further details with regard to financial activities, see Chapter A (1.26) above.

Profit (Loss) for the Year

The Company recorded a net profit for the year ended December 31, 2004, amounting to approx. NIS 2,879,000, as compared to a loss of approx. NIS 3,510,000 for the year ended December 31, 2003, and as compared to a loss of approx. NIS 8,770,000 for the year ended December 31, 2002.

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

The turning point and the shift to net profit in 2004 (since 1998) were mainly attributable to the growth and increase in revenues in recent years, which the Company believes are attributable to the investments described above, despite the adjustments made during the reported period in the Development, Selling and Marketing and General and Administrative Expenses items, in order to support the Company's continued growth, as set forth above.

2.2.4.1 <u>Analysis of Business Results by Sectors of Operations</u>

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

The revenues from products for the year ended December 31, 2004, constituted approx. 48% of the Company's total revenues for that year, whereas the revenues from systems for the same period constituted approx. 51% of the total revenues. For the year ended December 31, 2003, the revenues from products constituted approx. 53% of the Company's total revenues for that year, whereas the revenues from systems for the same period constituted approx. 47% of the total revenues. For the year ended December 31, 2002, the revenues from products constituted approx. 67% of the Company's total revenues for that year, whereas the revenues from systems for the same period constituted approx. 33% of the total revenues. The Company believes that the increase in the proportion of the revenues from the Systems sector out of the Company's total revenues in the reported period was mainly attributable to increased demand for automated logistics systems, which is expressed in a number of contracts for the supply and installation of automated warehouses that were signed during the reported period. For further details, see Chapter A (1.10.2.1) above.

The Products Sector

The total revenues from the Products sector for the year ended December 31, 2004, amounted to approx. NIS 29,883,000, as compared to approx. NIS 21,181,000 for the year ended December 31, 2003, and as compared to approx. NIS 13,818,000 for the year ended December 31, 2002. The increase at a rate of approx. 41% in the reported period is mainly attributable, in the Company's opinion, to the increased market recognition of the Company's products and to its marketing efforts, particularly in the USA.

The rate of gross profit in the Products sector for the year ended December 31, 2004, amounted to approx. 53%, as compared to approx. 49% for the year ended December 31, 2003, and as compared to approx. 44% for the year ended December 31, 2002. The improvement in this item is mainly attributable to the increase in revenues in this sector, which was not accompanied by an increase at the same rate in the personnel input required for production, and at the same time, created an increase in the production volume, thus enabling a certain decrease in the costs of the raw materials. For further details with regard to profitability from products and services, see Chapter A (1.11) above.

The Products sector results for the year ended December 31, 2004, amounted to approx. NIS 9,241,000, as compared to approx. NIS 5,112,000 for the year ended December 31, 2003, and as compared to approx. NIS 635,000 for the year ended

December 31, 2002. The increase at a rate of approx. 80% in the reported period is mainly attributable, in the Company's opinion, to the growth in revenues from the Products sector concurrently with an improvement in the rate of gross profit in this sector, as explained above.

The Systems Sector

The total revenues from the Systems Sector for the year ended December 31, 2004, amounted to approx. NIS 31,263,000, as compared to approx. NIS 19,125,000 for the year ended December 31, 2003, and as compared to approx. NIS 6,916,000 for the year ended December 31, 2002. The increase at a rate of approx. 63% in the reported period was mainly attributable to a number of contracts for the supply and installation of automated warehouses that were signed during the reported period.

The rate of gross profit in the Systems sector for the year ended December 31, 2004, amounted to approx. 19%, as compared to approx. 18% for the year ended December 31, 2003, and as compared to approx. 14% for the year ended December 31, 2002.

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

The Systems sector results for the year ended December 31, 2004, amounted to approx. NIS 4,934,000, as compared to approx. NIS 2,475,000 for the year ended December 31, 2003, and as compared to approx. NIS 466,000 for the year ended

December 31, 2002. The increase at a rate of approx. 99% in the reported period was mainly attributable, in the Company's opinion, to the growth in revenues from the Systems sector as well as the relative preservation of the rate of gross profit in this sector, as explained above.

2.2.5 Liquidity and Financial Sources

The balance of cash, cash equivalents and marketable securities of the Company for the year ended December 31, 2004, amounted to approx. NIS 49,083,000, as compared to approx. NIS 7,075,000 for the year ended December 31, 2003. This increase was mainly attributable to the raising of capital from the public pursuant to the Israeli prospectus in May 2004 and to the positive cash flow from the beginning of 2004, as explained in detail below.

The cash flow provided by operating activities for the year ended December 31, 2004, was a positive cash flow, amounting to approx. NIS 11,666,000, as compared to a negative cash flow, amounting to approx. NIS 402,000 for the year ended December 31, 2003, and as compared to a negative cash flow, amounting to approx. NIS 5,607,000 for the year ended December 31, 2002. The significant improvement in this section and the transition to positive cash flow are mainly attributable to the return to net profit from the commencement of the reported period.

The cash flow provided by investing activities for the year ended December 31, 2004, was a negative cash flow, amounting to approx. NIS 30,833,000, as compared to a negative cash flow, amounting to approx. NIS 155,000 for the year ended December 31, 2003, and as compared to a positive cash flow, amounting to approx. NIS 468,000 for the year ended December 31, 2002. The main difference in the reported period is attributable to the purchase of marketable securities during this period.

The cash flow provided by financing activities for the year ended December 31, 2004, amounted to a positive sum of approx. NIS 34,084,000, as compared to a negative cash flow, amounting to approx. NIS 1,056,000 for the year ended

December 31, 2003, and as compared to a positive cash flow, amounting to approx. NIS 8,110,000 for the year ended December 31, 2002. The positive cash flow in the reported period is mainly attributable to the raising of capital from the public in May 2004, by way of a public issuance of the Company's securities.

As of December 31, 2004, the Company had credit lines for current operations amounting to approx. NIS 5.4 million. As of December 31, 2004, a total sum of approx. NIS 2.4 million out of the credit lines had been used, mainly by way of the issuance of guarantees to secure the Company's obligations in the projects being implemented by the Systems Department.

2.3 Quality Reporting on Exposure to Market Risks and Risk Management Methods

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

Exposure to Exchange Rate Fluctuations

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

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

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

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

The Current Liabilities items which are exposed to exchange rate fluctuations include bank credit that is partly linked to foreign currency and also debts to suppliers in foreign currency, mainly in Euros. The Long-Term Liabilities items include debts under a financing plan for the acquisition of rights in the Company's offices at Airport City, about 40% of which are denominated in US dollars.

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

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

Risks Related to Marketable Securities

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

Interest Risks

The Company has various loans under the financing plan for the acquisition of rights in the Company's offices at Airport City, convertible bonds which the

Company issued pursuant to the Israeli prospectus and other credit facilities bearing various interest rates and exposed to potential changes in the Prime and/or Libor interest rates.

The Company's Policy on Market Risk Management

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

The Company examines, on a regular basis, the credit that it has given to customers and the potential losses that could arise from the provision of credit to customers. The Company makes specific provisions for debts where collection is in doubt.

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

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

2.4 Consolidated Linkage Basis Report

Consolidated Linkage Basis Report	Israeli Currency		Foreign Currency				
	Not linked	Linked to the Consumer Price Index	In Euros	In US dollars	In other currencies	Non-monetary balances	Total
	NIS 000's						
Assets							
Cash and cash equivalents	4,648	-	12,637	3,662	-	-	20,947
Marketable securities	3,793	12,603	-	11,740	-	-	28,136
Accounts receivable - trade	4,643	-	1,095	1,124	-	-	6,862
Accounts receivable - other	177	486	-	-	-	240	903
Inventory	-	-	-	-	-	9,785	9,785
Inventory Work-in-progress	-	-	-	-	-	443	443
Long-term deposits	-	-	-	-	-	133	133
Property and Equipment	-	-	-	-	-	22,620	22,620
Other assets	-	-	-	-	-	4,157	4,157
Total assets	13,261	13,089	13,732	16,526	-	37,378	93,986
Liabilities							
Credit from Banks and Others	463	166	-	498	-	-	1,127
Accounts payable - trade	8,514	-	4,871	331	14	-	13,730
Accounts payable - other	7,093	-	-	128	-	674	7,895
Long-term debts	5,825	502	-	4,735	-	-	11,062
Convertible bonds	-	-	4,850	33,402	-	-	38,252
Accrued severance pay, net	1,140	-	-	-	-	-	1,140
Deferred taxes	-	-	-	-	-	165	165
Total liabilities	23,035	668	9,721	39,094	14	839	73,371
	(9,774)	12,421	4,011	(22,568)	(14)	36,539	20,615

2.5 <u>Internal Auditor and Internal Audit at the Company (Directive of the Securities Authority pursuant to section 36(a)(b) of the Law)</u>

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

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

(c) The scope of employing the internal auditor and the team of employees subordinate to him in the years 2002, 2003 and 2004 in internal auditing for the Company was approx. 150 hours on average each year. On the date of the report, the scope of the audit for the year 2005 is planned to be approx. 200 hours.

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

(e) The internal audit reports for the years 2002 and 2003 related to a number of aspects of the operations of Unitronics Inc. (a wholly-owned subsidiary that was incorporated in June 2001 and engages mainly in the coordination of the Company's marketing and distribution activities in the USA) including the monitoring of the implementation of the recommendations of the internal auditor in these matters.

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

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

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

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

Subject	Report for 2002	Report for 2003	Report for 2004
Date of delivery of the internal auditor's report	22/10/02	15/01/04	13/01/05
Date of discussion at the Audit Committee	24/11/02	19/02/04	26/01/05
Date of discussion at the Board of Directors	24/11/02	19/02/04	26/01/05

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

Haim Shani	Zvi Livneh
CEO and Chairman of the Board of Directors	Director
March 20, 2005	March 20, 2005

UNITRONICS (1989) (R"G) LTD.

Financial Statements
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Unitronics (1989) (R"G) Ltd.

Financial Statements

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

We have audited the accompanying balance sheets of Unitronics (1989) (R"G) Ltd. (hereinafter the "Company"), and the consolidated balance sheets of the Company and its subsidiaries as at December 31, 2003 and 2004, and the statements of operations, shareholders' equity and cash flows of the Company, and of the Company and its subsidiaries consolidated for each of the three years the last of which ended December 31, 2004. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of a subsidiary whose assets constitute 3% and 2% of the total consolidated assets as at December 31, 2003 and 2004 respectively and whose revenues constitute 10%, 9% and 9%, of the total consolidated revenues for the years ended December 31, 2002, 2003 and 2004 respectively. The financial statements of the subsidiary were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts emanating from the financial statements of the subsidiary, is based solely on the opinions of the other auditors.

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

In our opinion, based on our audit and on the reports of the above mentioned other auditors, the above financial statements present fairly, in all material respects, the financial position of the Company, and the consolidated financial position of the Company and its subsidiaries as at December 31, 2003 and 2004, and the results of operations, changes in shareholders' equity and cash flows of the Company, and of the Company and its subsidiaries consolidated for each of the three years the last of which ended December 31, 2004, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). As applied to these financial statements, Israeli GAAP are substantially identical with the International Financial Reporting Standards (IFRS) in all material respects except as otherwise described in Note 27 to the Financial Statements.

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

Amit, Halfon
Certified Public Accountants (Israel)

Tel-Aviv, March 20, 2005

Notes	Unitronics (1989) (R"G) Ltd. Consolidated Balance Sheets	December 31, 2004	December 31, 2004	December 31, 2003	
			(in thousands)		
		Convenience translation into EURO, (unaudited) (1)	Reported NIS (2)	Adjusted NIS (3)	
2H;3	Cash and cash equivalents	3,564	20,947	6,030	(*)
2I;4	Marketable securities	4,788	28,136	1,045	(*)
	Accounts receivable -				
5	Trade	1,168	6,862	4,914	
6	Other	154	903	503	
2J;7	Inventory	1,665	9,785	6,379	
2K;8	Inventory - work in progress	75	443	1,348	
	Current assets	*11,414*	*67,076*	*20,219*	
	Long-term deposits	*23*	*133*	*116*	
2M;10	*Property and equipment*	*3,849*	*22,620*	*20,898*	
2P;11	*Other assets*	*707*	*4,157*	*538*	
18	***Total assets***	***15,993***	***93,986***	***41,771***	
12	Credit from banks and others	192	1,127	812	
	Accounts payable -				
13	Trade	2,336	13,730	6,256	
14	Other	1,343	7,895	5,039	
	Current liabilities	*3,871*	*22,752*	*12,107*	
15	Long-term debt	1,883	11,062	11,745	
2O;16	Convertible bonds	6,509	38,252	4,413	
17	Accrued severance pay, net	194	1,140	1,068	
2T;22	Deferred taxes	28	165	115	
	Long-term liabilities	*8,614*	*50,619*	*17,341*	
19	Commitments and Contingent Liabilities				
20	Share capital	60	352	336	
	Share premium	8,243	48,442	43,721	
	Receipts on account of warrants	115	676	-	
	Accumulated loss	(4,910)	(28,855)	(31,734)	
	Shareholders' equity	*3,508*	*20,615*	*12,323*	
18	***Total liabilities and shareholders' equity***	***15,993***	***93,986***	***41,771***	

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

Approved: March 20, 2005

(*) Re-classified.

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

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

Notes	Unitronics (1989) (R"G) Ltd. Consolidated Statements of Operations	For the year ended December 31, 2004	For the year ended December 31, 2004	2003	2002
			(in thousands)		
		Convenience translation into EURO, (unaudited) (1)	Reported NIS (2)	Adjusted NIS (3)	Adjusted NIS (3)
2Q;21A	Revenues	10,511	61,771	40,306	20,734
21B	Cost of revenues	6,818	40,069	26,483	13,707
	Gross profit	*3,693*	*21,702*	*13,823*	*7,027*
2R;21C	Research & development expenses, net	709	4,169	3,055	3,455
21D	Selling & marketing expenses	1,318	7,746	6,667	6,340
21E	General & administrative expenses	798	4,691	3,580	3,772
	Operating profit (loss)	*868*	*5,096*	*521*	*(6,540)*
21F	Financing expenses, net	373	2,193	3,911	2,192
	Operating profit (loss) after financing expenses, net	*495*	*2,903*	*(3,390)*	*(8,732)*
	Other income (expenses), net	7	48	(9)	7
	Profit (loss) before taxes on income	*502*	*2,951*	*(3,399)*	*(8,725)*
2T;22	Taxes on income	12	72	111	45
	Profit (loss) for the year	*490*	*2,879*	*(3,510)*	*(8,770)*
2U;24	*Profit (loss) per NIS 1 ordinary share (Israeli GAAP)* Basic and Fully diluted	2.16	12.69	(19.61)	(49.55)
27	Profit (loss) per share under International Financial Reporting Standards	*0.04*	*0.22*	*(0.39)*	*(0.99)*

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

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

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

	Share capital					
	Number of shares*	Amount	Share premium	Receipts on account of warrants	Accumulated loss	Total
			Adjusted NIS in thousands (3)			
Balance at January 1, 2002	8,864,388	295	30,233	-	(19,454)	11,074
Loss for the year	-	-	-	-	(8,770)	(8,770)
Balance at December 31, 2002	8,864,388	295	30,233	-	(28,224)	2,304
Issue of share capital	109,410	3	523	-	-	526
Conversion of convertible bonds	1,902,748	38	12,965	-	-	13,003
Loss for the year	-	-	-	-	(3,510)	(3,510)
Balance at December 31, 2003	10,876,546	336	43,721	-	(31,734)	12,323
			Reported NIS in thousands (2)			
Balance at January 1, 2004	10,876,546	336	43,721	-	(31,734)	12,323
Issue of share capital	800,000	16	4,721	-	-	4,737
Receipts on account of warrants	-	-	-	676	-	676
Profit for the year	-	-	-	-	2,879	2,879
Balance at December 31, 2004	11,676,546	352	48,442	676	(28,855)	20,615

	Share capital					
	Number of shares*	Amount	Share premium	Receipts on account of warrants	Accumulated loss	Total
	Convenience translation into EURO in thousands (unaudited) (1)					
Balance at December 31, 2003	10,876,546	57	7,440	-	(5,400)	2,097
Issue of share capital	800,000	3	803	-	-	806
Receipts on account of warrants	-	-	-	115	-	115
Profit for the year	-	-	-	-	490	490
Balance at December 31, 2004	11,676,546	60	8,243	115	(4,910)	3,508

* See Note 20.

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

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

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

	For the year ended December 31,	For the year ended December 31,		
	2004	2004	2003	2002
	(in thousands)			
	Convenience translation into EURO, (unaudited) (1)	Reported NIS (2)	Adjusted NIS (3)	Adjusted NIS (3)
Profit (loss) for the year	490	2,879	(3,510)	(8,770)
Depreciation and amortization	357	2,099	1,603	1,572
Loss (profit) from marketable securities, net	(67)	(396)	(90)	49
Capital (gain) loss	(8)	(48)	9	(7)
Increase (decrease) in accrued severance pay, net	12	72	(15)	(150)
Deferred taxes, net	5	32	111	45
Erosion on long-term debt, convertible bonds and bank deposit, net	55	326	1,470	1,874
Decrease (increase) in accounts receivable - trade	(275)	(1,617)	184	(1,490)
Decrease (increase) in accounts receivable - other	(68)	(400)	458	(511)
Decrease (increase) in inventory	(580)	(3,406)	(1,974)	1,076
Decrease (increase) in inventory - work in progress	154	905	(1,348)	-
Increase (decrease) in accounts payable - trade	1,480	8,695	2,565	(1,750)
Increase in accounts payable - other	430	2,525	135	2,455
Cash flows provided by (used in) operating activities	*1,985*	*11,666*	*(402)*	*(5,607)*
Investment in marketable securities, net	(4,507)	(26,695)	142	(10)
Change in bank deposit	-	-	3,811	9,154
Purchase of property and equipment	(733)	(4,309)	(3,997)	(8,744)
Sale of equipment	42	246	34	93
Investment in long-term deposits	(6)	(37)	(19)	(25)
Repayment of long-term deposits	3	20	34	-
Investment in patent	(10)	(58)	(6)	-
Investment in other assets	-	-	(154)	-
Cash flows provided by (used in) investing activities	*(5,211)*	*(30,833)*	*(155)*	*468*
Deferred offering expenses	(712)	(4,184)	-	-
Loans received from bank	-	-	-	7,530
Repayment of long-term loans	(101)	(594)	(625)	(35)
Loans received from others	48	283	-	210
Short-term credit from banks, net	2	13	(635)	405
Receipts on account of warrants	115	676	-	-
Convertible bonds issue	5,641	33,153	-	-
Share capital issue	806	4,737	526	-
Expenses related to conversion of convertible bonds to share capital	-	-	(322)	-
Cash flows provided by (used in) financing activities	*5,799*	*34,084*	*(1,056)*	*8,110*
Increase (decrease) in cash and cash equivalents	*2,573*	*14,917*	*(1,613)*	*2,971*
Cash and cash equivalents at beginning of year	991	6,030	7,643	4,672
Cash and cash equivalents at end of year	*3,564*	20,947	6,030	7,643

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

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

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

	For the year ended December 31,	*For the year ended December 31,*		
	2004	*2004*	*2003*	*2002*
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	**Reported NIS (2)**	**Adjusted NIS (3)**	**Adjusted NIS (3)**
Appendix A - Non cash transactions				
Financing income capitalized to property and equipment	-	-	-	73
Payables related to property and equipment	51	300	1,521	2,015
Conversion of convertible bonds	-	-	13,325	-

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

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

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

Notes		*December 31, 2004*	*December 31, 2004*	*December 31, 2003*
			(in thousands)	
		Convenience translation into EURO, (unaudited) (1)	**Reported NIS (2)**	**Adjusted NIS (3)**
2H;3	Cash and cash equivalents	3,510	20,630	5,891
2I;4	Marketable securities	4,788	28,136	1,045
	Accounts receivable -			
5	Trade	1,014	5,958	4,246
6	Other	747	4,387	2,992
2J;7	Inventory	1,623	9,537	6,148
2K;8	Inventory - work in progress	75	443	1,348
	Current assets	*11,757*	*69,091*	*21,670*
	Long-term deposits	*23*	*133*	*116*
2L;9	*Investment in subsidiaries*	*13*	*75*	-
2M;10	*Property and equipment*	*3,822*	*22,463*	*20,872*
2P;11	*Other assets*	*707*	*4,157*	*538*
	Total assets	***16,322***	***95,919***	***43,196***
12	Credit from banks and others	190	1,114	812
	Accounts payable -			
13	Trade	2,300	13,514	6,247
14	Other	1,710	10,057	6,473
	Current liabilities	*4,200*	*24,685*	*13,532*
15	Long-term debt	1,883	11,062	11,745
2O;16	Convertible bonds	6,509	38,252	4,413
17	Accrued severance pay, net	194	1,140	1,068
2T;22	Deferred taxes	28	165	115
	Long-term liabilities	*8,614*	*50,619*	*17,341*
19	Commitments and Contingent Liabilities			
20	Share capital	60	352	336
	Share premium	8,243	48,442	43,721
	Receipts on account of warrants	115	676	-
	Accumulated loss	(4,910)	(28,855)	(31,734)
	Shareholders' equity	*3,508*	*20,615*	*12,323*
	Total liabilities and shareholders' equity	***16,322***	***95,919***	***43,196***

(*) Re-classified.

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

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

Notes	Unitronics (1989) (R"G) Ltd. Statements of Operations Company	For the year ended December 31, 2004	For the year ended December 31, 2004	2003	2002
			(in thousands)		
		Convenience translation into EURO, (unaudited) (1)	Reported NIS (2)	Adjusted NIS (3)	Adjusted NIS (3)
2Q;21A	Revenues	10,157	59,689	39,403	20,235
21B	Cost of revenues	6,733	39,575	26,494	13,777
	Gross profit	*3,424*	*20,114*	*12,909*	*6,458*
2R;21C	Research & development expenses, net	709	4,169	3,055	3,455
21D	Selling & marketing expenses	1,050	6,173	5,598	5,618
21E	General & administrative expenses	683	4,010	3,178	3,333
	Operating profit (loss)	*982*	*5,762*	*1,078*	*(5,948)*
21F	Financing expenses, net	387	2,273	4,006	2,178
	Operating profit (loss) after financing expenses, net	*595*	*3,489*	*(2,928)*	*(8,126)*
	Other income (expenses), net	8	48	(9)	7
	Profit (loss) before taxes on income	*603*	*3,537*	*(2,937)*	*(8,119)*
2T;22	Taxes on income	5	32	111	45
	Profit (loss) after taxes on income	*598*	*3,505*	*(3,048)*	*(8,164)*
	The Company's share of subsidiaries losses	108	626	462	606
	Profit (loss) for the year	*490*	*2,879*	*(3,510)*	*(8,770)*
2U;24	*Profit (loss) per NIS 1 ordinary Share (Israeli GAAP)* Basic and Fully diluted	*2.16*	*12.69*	*(19.61)*	*(49.55)*
27	Profit (loss) per share under International Financial Reporting Standards	*0.04*	*0.22*	*(0.39)*	*(0.99)*

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

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

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

	For the year ended December 31,	*For the year ended December 31,*		
	2004	*2004*	*2003*	*2002*
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	**Reported NIS (2)**	**Adjusted NIS (3)**	**Adjusted NIS (3)**
Profit (loss) for the year	490	2,879	(3,510)	(8,770)
The Company's share of subsidiaries losses	107	626	462	606
Depreciation and amortization	353	2,077	1,595	1,567
Loss (profit) from marketable securities, net	(67)	(396)	(90)	49
Capital (gain) loss	(8)	(48)	9	(7)
Increase (decrease) in accrued severance pay, net	12	72	(15)	(150)
Deferred taxes, net	5	32	111	45
Erosion on long-term debt, convertible bonds and bank deposit, net	56	326	1,470	1,874
Decrease (increase) in accounts receivable - trade	(235)	(1,381)	496	(1,227)
Increase in accounts receivable - other	(237)	(1,395)	(402)	(1,465)
Decrease (increase) in inventory	(577)	(3,389)	(1,963)	1,146
Decrease (increase) in inventory - work in progress	154	905	(1,348)	-
Increase (decrease) in accounts payable - trade	1,444	8,488	2,582	(1,719)
Increase in accounts payable - other	434	2,553	145	2,400
Cash flows provided by (used in) operating activities	*1,931*	*11,349*	*(458)*	*(5,651)*
Investment in marketable securities, net	(4,507)	(26,695)	142	(10)
Change in bank deposit	-	-	3,811	9,154
Investment in subsidiaries	-	(1)	-	-
Purchase of property and equipment	(707)	(4,156)	(3,980)	(8,743)
Sale of equipment	42	246	34	93
Investment in long-term deposits	(6)	(37)	(19)	(25)
Repayment of long-term deposits	3	20	34	-
Investment in patent	(10)	(58)	(6)	-
Investment in other assets	-	-	(154)	-
Cash flows provided by (used in) investing activities	*(5,185)*	*(30,681)*	*(138)*	*469*
Deferred offering expenses	(712)	(4,184)	-	-
Loans received from bank	-	-	-	7,530
Repayment of long-term loans	(101)	(594)	(625)	(35)
Loans received from others	48	283	-	210
Short-term credit from banks, net	-	-	(635)	405
Receipts on account of warrants	115	676	-	-
Convertible bonds issue	5,641	33,153	-	-
Share capital issue	806	4,737	526	-
Expenses related to conversion of convertible bonds to share capital	-	-	(322)	-
Cash flows provided by (used in) financing activities	*5,797*	*34,071*	*(1,056)*	*8,110*
Increase (decrease) in cash and cash equivalents	*2,543*	*14,739*	*(1,652)*	*2,928*
Cash and cash equivalents at beginning of year	*967*	*5,891*	*7,543*	*4,615*
Cash and cash equivalents at end of year	*3,510*	*20,630*	*5,891*	*7,543*

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

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

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

	For the year ended December 31,	*For the year ended December 31,*		
	2004	*2004*	*2003*	*2002*
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	**Reported NIS (2)**	**Adjusted NIS (3)**	**Adjusted NIS (3)**
Appendix A - Non cash transactions				
Financing income capitalized to property and equipment	-	-	-	73
Payables related to property and equipment	51	300	1,521	-
Conversion of convertible bonds	-	-	13,325	-

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

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

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

Note 1 - General

1. Unitronics (1989) (R"G) Ltd. (the "Company") was incorporated in August 1989.
2. The Company designs, develops, manufactures and markets Programmable Logic Controllers - which are specialized computer-based electronic devices used in an automation process to control machinery and other systems, and factory automation software solutions and system integration projects.
3. On November, 1999 the company completed an initial public offering of 1,600,000 ordinary shares on the Euro. NM in Belgium (Euronext).
4. On May, 2004 the company completed a public offering of 800,000 ordinary shares, 35,000,000 convertible bonds and 1,000,000 warrants on the Tel-Aviv stock exchange.

Note 2 - Significant Accounting Policies

A. Definitions

1. Subsidiaries - Companies in which the Company holds shares representing in excess of 50% of ownership and voting rights.
2. Related parties - as defined in Opinion No. 29 of the Institute of Certified Public Accountants in Israel (the "Israeli ICPA"), as follows:
   (a) Parties, which either directly or indirectly: (1) owns 10% or more of the issued share capital of the other company, or of its voting rights or of the rights to appoint its directors or; (2) has the right to appoint its Chief Executive Officer (CEO) or; (3) acts as its director or CEO; or
   (b) Any corporate body of which one of the parties mentioned in (a) above, owns 25% or more of the body's issued share capital, or of its voting rights or of the rights to appoint its directors; or
   (c) Spouses and minor children of parties mentioned in (a) above.

4. Interested parties - as defined in the Israeli Securities Law:
   (a) The holder of 5% or more of the issued share capital or of the voting rights of a company, a person who has the right to appoint one or more members of the Board of Directors of the Company or its CEO, a person serving as the CEO or as a member of the Board, an entity in which a person as described above holds 25% or more of its issued share capital or of its voting rights, or has the right to appoint 25% or more of its Board members.
   (b) A subsidiary of a company, other than a nominee company.
5. Israeli CPI - The Consumer Price Index as published by the Central Bureau of Statistics in Israel.
6. NIS - New Israeli Shekel.
7. USD - Dollar of the United States of America.
8. EURO - Pan European currency.

B. Israeli Generally Accepted Accounting Principles

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

Note 2 - Significant Accounting Policies (cont'd)

C. Use of estimates in the preparation of financial statements

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

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

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

1. Starting point for the preparation of financial statements

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

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

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

(d) 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.

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

(c) Statement of operations

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

Note 2 - Significant Accounting Policies (cont'd)

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

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

(d) Rate of exchange and linkage base

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

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

	December 31, 2004	Change for the year ended December 31, 2004	December 31, 2003	Change for the year ended December 31, 2003	December 31, 2002	Change for the year ended December 31, 2002
Israeli CPI (in points) (*)	180.74	1.21%	178.58	(1.88%)	182.01	6.49%
Exchange rate of the EURO against the NIS	5.8768	6.21%	5.5331	11.34%	4.9696	27.18%
Exchange rate of the USD against the NIS	4.308	(1.62%)	4.379	(7.56%)	4.737	7.27%

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

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

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

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

Balance sheet:

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

Statement of income:

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

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

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

Note 2 - Significant Accounting Policies (cont'd)

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

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

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

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

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

(f) Translation of financial statements of foreign operations

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

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

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

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

F. Convenience translation in EURO.

For the convenience of the reader, the reported NIS amounts for the last reported period have been translated in EURO by dividing each reported NIS amount by the representative rate of exchange of the EURO as at December 31, 2004 (EURO 1 = NIS 5.8768).

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

G. Principles of consolidation

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

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

H. Cash and cash equivalents

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

I. Marketable securities

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

Note 2 - Significant Accounting Policies (cont'd)

J. Inventory

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

Cost is determined as follows:

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

K. Inventory - work in progress

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

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

L. Investment in subsidiaries

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

M. Property and equipment

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

Annual rates of depreciation are as follows:

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

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

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

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

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

O. Convertible bonds

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

Note 2 - Significant Accounting Policies (cont'd)

P. Convertible bonds offering expenses

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

Q. Revenue recognition

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

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

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

R. Research and development

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

S. Provision for doubtful accounts

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

T. Deferred income taxes

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

U. Profit (loss) per share

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

V. Effects of recently issued accounting pronouncements

In July 2004 Accounting Standard No.19 - Taxes on Income was approved by the Israel Accounting Standards Board (hereinafter - the standard). The standard determines the rules for the recognition, measurement, presentation and the disclosure of taxes on income in the financial statements. The main change determined by the standard in relation to the rules applied today, is the recognition of deferred taxes for timing differences relating to land property.

The standard is applicable to financial statements relating to periods beginning on or after January 1, 2005. The application of the standard will be imposed by the accumulated effect for the beginning of the period that the standard is implicated. In the company's opinion, the new standard has no material effect on its operational results, financial position and its cash flows.

Note 3 - Cash and cash equivalents

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

	December 31, 2004	*December 31, 2004*	*December 31, 2003*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**
Israeli currency	791	4,648	1,534
Foreign currency	2,773	16,299	4,496
	3,564	*20,947*	*6,030*

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

	December 31, 2004	*December 31, 2004*	*December 31, 2003*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**
Israeli currency	775	4,556	1,534
Foreign currency	2,735	16,074	4,357
	3,510	*20,630*	*5,891*

Note 4 - Marketable securities

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

	December 31, 2004	*December 31, 2004*	*December 31, 2003*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**
NIS bonds			
Linked to israeli CPI	2,145	12,603	506
Linked to USD	328	1,925	-
Unlinked	645	3,793	539
Dollar bonds	1,670	9,815	-
	4,788	28,136	1,045

Note 5 - Accounts receivable - trade

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

	December 31, 2004	December 31, 2004	December 31, 2003
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS
Related to work in progress in connection with long-term contracts (*):			
Open accounts	171	1,005	2,242
Income receivable	412	2,421	-
	583	3,426	2,242
Others:			
Open accounts	611	3,590	2,730
Post-dated checks receivable	12	69	143
	623	3,659	2,873
	1,206	7,085	5,115
Provision for doubtful accounts	(38)	(223)	(201)
	1,168	*6,862*	*4,914*

Consolidated and Company

(*) Recognized revenues related to work in progress	3,595	21,126	2,676
Less amounts received from customers in respect of work in progress	3,085	18,129	776
	510	*2,997*	*1,900*
VAT related to open accounts	73	429	342
	583	3,426	2,242
The contracts amounts signed during the period	*8,918*	*52,412*	*7,504*
Balance of contracts amounts where revenues were not recognized	*5,034*	*29,581*	*8,778*

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

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

	December 31, 2004	December 31, 2004	December 31, 2003
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS
Related to work in progress in connection with long-term contracts:			
Open accounts	171	1,005	2,242
Income receivable	412	2,421	-
	583	3,426	2,242
Others:			
Open accounts	455	2,674	2,062
Post-dated checks receivable	10	59	143
	465	2,733	2,205
	1,048	6,159	4,447
Provision for doubtful accounts	(34)	(201)	(201)
	1,014	*5,958*	*4,246*

Note 6 - Accounts receivable - other

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

	December 31, 2004	December 31, 2004	December 31, 2003
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS
Government institutions	19	114	-
Prepaid expenses	41	240	165
Income tax	83	486	299
Others	11	63	39
	154	903	503

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

	December 31, 2004	December 31, 2004	December 31, 2003
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS
Government institutions	19	114	-
Subsidiaries (*)	595	3,498	2,504
Prepaid expenses	40	235	150
Income tax	81	477	299
Others	12	63	39
	747	*4,387*	*2,992*

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

Note 7 - Inventory

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

	December 31, 2004	December 31, 2004	December 31, 2003
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS
Raw and packing materials	637	3,744	2,333
Work in process	638	3,747	2,427
Finished products	390	2,294	1,619
	1,665	*9,785*	*6,379*

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

	December 31, 2004	December 31, 2004	December 31, 2003
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS
Raw and packing materials	637	3,744	2,333
Work in process	638	3,747	2,427
Finished products	348	2,046	1,388
	1,623	*9,537*	*6,148*

Note 8 - Inventory - work in progress

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

	December 31, 2004	December 31, 2004	December 31, 2003
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS
Cost of work performed	5,037	29,602	17,009
Less amounts charged to statements of operations	4,310	25,328	15,661
Less amounts presented net of customer's advances	652	3,831	-
	75	*443*	*1,348*

Note 9 - Investment in subsidiaries

A. Details of the subsidiaries, their activities and the rate of holdings therein as at December 31, 2004 and 2003:

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

B. Composition

Unitronics (1989) (R”G) Ltd.
Company

	December 31, 2004	*December 31, 2004*	*December 31, 2003*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**
Cost of shares	- (*)	1	- (**)
Company’s share of losses	(366)	(2,150)	(1,524)
	(366)	*(2,149)*	*(1,524)*
Presented in invesments in subsidiaries	*13*	*75*	-
Presented in accounts payable - other	*(379)*	*(2,224)*	*(1,524)*

(*) Less than EURO 1,000.
(**) Less than NIS 1,000.

Note 10 - Property and equipment

Unitronics (1989) (R"G) Ltd. Consolidated	*Land and Buildings*	*Machinery and Equipment*	*Motor vehicles*	*Office furniture and Equipment*	*Total*
			Reported NIS in thousands		
Cost					
Balance as at January 1, 2004	*(*)19,636*	*2,064*	*769*	*1,372*	*23,841*
Additions	1,081	982	805	220	3,088
Disposals	-	-	(450)	(28)	(478)
Balance as at December 31, 2004	*20,717*	*3,046*	*1,124*	*1,564*	*26,451*
Accumulated depreciation					
Balance as at January 1, 2004	461	*1,536*	*451*	*495*	*2,943*
Depreciation during the year	535	344	99	190	1,168
Disposals	-	-	(254)	(26)	(280)
Balance as at December 31, 2004	996	*1,880*	*296*	*659*	*3,831*
Net book value as at December 31, 2004	*19,721*	*1,166*	*828*	*905*	*22,620*
			Adjusted NIS in thousands		
Net book value as at December 31, 2003	*19,175*	*528*	*318*	*877*	*20,898*

Unitronics (1989) (R"G) Ltd. Consolidated	**Convenience translation into Euro, (unaudited)**				
	Land and Buildings	*Machinery and Equipment*	*Motor vehicles*	*Office furniture and Equipment*	*Total*
			(in thousands)		
Cost					
Balance as at January 1, 2004	*(*) 3,341*	*351*	*131*	*233*	*4,056*
Additions	184	167	137	38	526
Disposals	-	-	(77)	(5)	(82)
Balance as at December 31, 2004	*3,525*	*518*	*191*	*266*	*4,500*
Accumulated depreciation					
Balance as at January 1, 2004	78	*260*	*77*	*84*	*499*
Depreciation during the year	91	59	17	32	199
Disposals	-	-	(43)	(4)	(47)
Balance as at December 31, 2004	169	*319*	*51*	*112*	*651*
Net book value as at December 31, 2004	*3,356*	*199*	*140*	*154*	*3,849*

(*) Includes specific capitalized financing costs (NIS 1,015 thousand, EURO 173 thousand, as at December 31, 2004), which was capitalized until the company populated the building on November 17, 2002. The building is located in Kiriat Sde Hateufa, on land leased from the government (Minhal). The land is leased for a period of 49 years and has been capitalized (91%). To the date of this report the leased rights have not yet been registered in the company's name.

Note 10 - Property and equipment (cont'd)

Unitronics (1989) (R"G) Ltd. Company	*Land and Buildings*	*Machinery and Equipment*	*Motor vehicles*	*Office furniture and Equipment*	*Total*
			Reported NIS in thousands		
Cost					
Balance as at January 1, 2004	*(*) 19,636*	*2,064*	*769*	*1,330*	*23,799*
Additions	1,081	982	805	67	2,935
Disposals	-	-	(450)	(28)	(478)
Balance as at December 31, 2004	*20,717*	*3,046*	*1,124*	*1,369*	*26,256*
Accumulated depreciation					
Balance as at January 1, 2004	461	*1,536*	*451*	*479*	*2,927*
Depreciation during the year	535	344	99	168	1,146
Disposals	-	-	(254)	(26)	(280)
Balance as at December 31, 2004	996	*1,880*	*296*	*621*	*3,793*
Net book value as at December 31, 2004	*19,721*	*1,166*	*828*	*748*	*22,463*
			Adjusted NIS in thousands		
Net book value as at December 31, 2003	*19,175*	*528*	*318*	*851*	*20,872*

Unitronics (1989) (R"G) Ltd. Company	**Convenience translation into Euro, (unaudited)**				
	Land and Buildings	*Machinery and Equipment*	*Motor vehicles*	*Office furniture and Equipment*	*Total*
			(in thousands)		
Cost					
Balance as at January 1, 2004	*(*) 3,341*	*351*	*131*	*226*	*4,049*
Additions	184	167	137	11	499
Disposals	-	-	(77)	(5)	(82)
Balance as at December 31, 2004	*3,525*	*518*	*191*	*232*	*4,466*
Accumulated depreciation					
Balance as at January 1, 2004	78	*260*	*77*	*81*	*496*
Depreciation during the year	91	59	17	28	195
Disposals	-	-	(43)	(4)	(47)
Balance as at December 31, 2004	*169*	*319*	*51*	*105*	*644*
Net book value as at December 31, 2004	*3,356*	*199*	*140*	*127*	*3,822*

(*) Includes specific capitalized financing costs (NIS 1,015 thousand, EURO 173 thousand, as at December 31, 2004), which was capitalized until the company populated the building on November 17, 2002. The building is located in Kiriat Sde Hateufa, on land leased from the government (Minhal). The land is leased for a period of 49 years and has been capitalized (91%). To the date of this report the leased rights have not yet been registered in the company's name.

Note 11 - Other assets

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

	December 31, 2004	December 31, 2004	December 31, 2003
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS
Deferred taxes (*)	48	285	267
Patents and licenses	18	108	94
Deferred offering expenses	641	3,764	177
	707	*4,157*	*538*

(*) See Note 22.

Note 12 - Credit from banks and others

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

	December 31, 2004	December 31, 2004	December 31, 2003
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS
Credit from banks -			
In NIS	*2*	13	-
Current maturities of long-term debt	190	1,114	812
	192	*1,127*	*812*

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

	December 31, 2004	December 31, 2004	December 31, 2003
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS
Current maturities of long-term debt	190	1,114	812
	190	*1,114*	*812*

Note 13 - Accounts payable - trade

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

	December 31, 2004	*December 31, 2004*	*December 31, 2003*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS
Suppliers	1,862	10,945	4,672
Post-dated checks payable	474	2,785	1,584
	2,336	*13,730*	*6,256*

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

	December 31, 2004	*December 31, 2004*	*December 31, 2003*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS
Suppliers	1,826	10,729	4,663
Post-dated checks payable	474	2,785	1,584
	2,300	*13,514*	*6,247*

Note 14 - Accounts payable - other

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

	December 31, 2004	*December 31, 2004*	*December 31, 2003*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS
Government institutions	1	3	126
Employees, payroll and taxes	353	2,075	1,506
Accrued expenses	757	4,451	1,403
Customers' advances (*)	160	938	1,931
Prepaid income	61	361	-
Others	11	67	73
	1,343	*7,895*	*5,039*

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

Unitronics (1989) (R"G) Ltd. Company	*December 31, 2004*	*December 31, 2004*	*December 31, 2003*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**
Government institutions	-	-	126
Employees, payroll and taxes	352	2,070	1,489
Accrued expenses	736	4,328	1,330
Consolidated company	12	69	-
Provision for loss of subsidiaries (see Note 9)	379	2,224	1,524
Customers' advances (*)	159	938	1,931
Prepaid income	61	361	-
Others	11	67	73
	1,710	*10,057*	*6,473*
Consolidated and Company			
(*) Amounts received from customers in respect of work in progress	2,536	14,906	18,380
Less revenues charged to statement of operations	1,725	10,137	16,449
Less cost of work in progress	652	3,831	-
	159	*938*	*1,931*

Note 15 - Long term debt

A. Consisting of the following:

Unitronics (1989) (R"G) Ltd. Consolidated and Company	**Annual Interest Rates %**	*December 31, 2004*	*December 31, 2004*	*December 31, 2003*
			(in thousands)	
		Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**
Long-term bank debt				
Linked to the USD	(*) 4.66 - 4.9	890	5,233	5,826
Unlinked in NIS	(*) 6.7	1,068	6,275	6,515
Less current maturities		(161)	(948)	(746)
		1,797	*10,560*	*11,595*
Long-term debt from others				
Motor vehicles lessors - linked to the Israeli CPI	6 - 11.23	114	668	216
Less current maturities		(28)	(166)	(66)
		86	*502*	*150*
		1,883	*11,062*	*11,745*

(*) Variable rate (rates as at December 31, 2004).

Note 15 - Long term debt (cont'd)

B. Aggregate maturities are as follows:

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

	December 31, 2004	*December 31, 2004*	*December 31, 2003*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**
Second year	1,102	6,477	1,028
Third year	109	639	6,382
Fourth year	106	621	536
Fifth year and thereafter	566	3,325	3,799
	1,883	*11,062*	*11,745*

Note 16 - Convertible bonds (consolidated and company)

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

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

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

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

C. Consisting of the following:

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

	December 31, 2004	*December 31, 2004*	*December 31, 2003*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**
Bonds linked to USD	5,955	35,000	-
Bonds linked to EURO	863	5,069	4,672
	6,818	40,069	4,672
Less discount, net	(309)	(1,817)	(259)
	6,509	38,252	4,413

D. Aggregate maturities are as follows:

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

	December 31, 2004	*December 31, 2004*	*December 31, 2003*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**
Current maturities	-	-	-
Second year	248	1,455	-
Third year	1,751	10,290	1,324
Fourth year	1,668	9,805	1,765
Fifth year	1,421	8,351	1,324
Sixth year and thereafter	1,421	8,351	-
	6,509	*38,252*	*4,413*

Note 17 - Accrued severance pay, net

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

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

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

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

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

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

	December 31, 2004	December 31, 2004	December 31, 2003
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS
Accrued severance pay	368	2,162	1,906
Less - amounts funded	174	1,022	838
	194	*1,140*	*1,068*

Note 18 - Monetary Assets and Liabilities Classified by Linkage Basis

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

	December 31, 2004					
	Israeli currency		Other currencies			
	Not linked	Linked to the Israeli CPI	Other currencies	US dollars	Euro	Total
Reported NIS, (audited), (in thousands)						
Current assets	13,261	13,089	-	16,526	13,732	56,608
Current liabilities	(16,070)	(166)	(14)	(957)	(4,871)	(22,078)
Long-term liabilities	(6,965)	(502)	-	(38,137)	(4,850)	(50,454)
	(9,774)	*12,421*	*(14)*	*(22,568)*	*4,011*	*(15,924)*
Convenience translation into EURO, (unaudited), (in thousands)						
Current assets	2,256	2,228	-	2,812	2,336	9,632
Current liabilities	(2,735)	(28)	(2)	(163)	(829)	(3,757)
Long-term liabilities	(1,185)	(85)	-	(6,490)	(825)	(8,585)
	(1,664)	*2,115*	*(2)*	*(3,841)*	*682*	*(2,710)*

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

	December 31, 2003					
	Israeli currency		Other currencies			
	Not linked	Linked to the Israeli CPI	Other currencies	US dollars	Euro	Total
Adjusted NIS, (audited), (in thousands)						
Current assets	3,837	755	-	2,672	5,063	12,327
Current liabilities	(6,969)	(66)	(73)	(722)	(2,273)	(10,103)
Long-term liabilities	(7,343)	(150)	-	(5,320)	(4,413)	(17,226)
	(10,475)	*539*	*(73)*	*(3,370)*	*(1,623)*	*(15,002)*

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

Note 19 - Commitments and Contingent Liabilities

A. Contingent liabilities

The Company is committed to pay royalties to the Government of Israel on proceeds from sales of products funded in part, by Government grants. At the time the grants were received, successful development of the related projects was not assured. The royalty rates vary from 2% to 5% of gross sales of a product or development resulting from the research. Royalties are payable up to 100% of the amount of such grants. The contingent liability in respect of royalties to the Government at December 31, 2004 amounts to NIS 2,370 thousands (EURO 403 thousands).

B. Mortgages and guarantees

In order to secure the company's liability in respect of financial leasing, the rights to the leased cars were liened to the leasing companies. Furthermore, in order to secure the company's liabilities to the bank, the company mortgaged with a first fixed and floating charge the building, notes, documents and securities deposited or which will be deposited in the bank. Similarly a first charge was placed on guarantees given to the company. Additionally, in order to secure an implementation of projects the company gave guarantees to customers in the total amount of NIS 2,432 thousands (EURO 414 thousands).

Note 20 - Share Capital

A. Composition

	Number of shares, (audited) *December 31, 2004*		**Number of shares, (audited)** *December 31, 2003*	
	Authorized	Issued and fully paid	Authorized	Issued and fully paid
Ordinary shares of NIS 0.02 each	100,000,000	11,676,546	25,000,000	10,876,546

B. Option plan

The Company maintains three share option plans (1999, 2001 and 2003 Share Option Plans), pursuant to which share options in the Company may be granted to employees, officers, directors and consultants of the Company or its subsidiaries. Pursuant to the 1999, 2001 and 2003 Option Plans, 440,000, 950,000 and 1,000,000 ordinary shares were reserved, respectively, for issuance under these plans. As of the date of publishing the financial statements, options to purchase 435,250, 790,499 and 502,000 ordinary shares have been granted under the 1999, 2001 and 2003 option plans respectively. 288,000 and 16,000 options under the 1999 and 2003 option plans, respectively, were expired as of December 31, 2004 accordingly to the options terms, without exercise. 62,250, 50,000 and 35,000 options exercisable under the 1999 plan at respective prices of EURO 1, EURO 1 and 10% less than the share price in the market, 376,500, 39,999, 15,000 and 359,000 options exercisable under the 2001 plan at respective prices of EURO 2.7, EURO 4.73, EURO 4.75 and EURO 0.91, 502,000 options exercisable under the 2003 plan at respective prices of EURO 1.3 . Under the option plans, the exercise price of options shall be determined by the board of directors, according to the option plans terms. The vesting schedule of the options is also determined by the board of directors. The options vest either immediately, or over a period of between one to four years and are typically exercisable for a period of four to five years. The 1999, 2001 and 2003 Option Plans expire in the years 2009, 2011 and 2013 respectively.

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

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

Note 20 - Share Capital (cont'd)

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

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

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

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

Note 21 - Statements of Operations Data

A. Principal customers

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

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

	For the year ended December 31,	*For the year ended December 31,*		
	2004	*2004*	*2003*	*2002*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**	**Adjusted NIS**
Customer A	1,767	10,383	-	-
Customer B	1,215	7,140	-	-
Customer C	577	3,390	14,346	2,900
Customer D	518	3,047	2,187	2,455

Note 21 - Statements of Operations Data (con't)

B. Cost of revenues

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

	For the year ended December 31,	*For the year ended December 31,*		
	2004	*2004*	*2003*	*2002*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**	**Adjusted NIS**
Materials consumed and subcontractors	5,610	32,969	21,552	9,742
Payroll and related benefits	1,007	5,920	4,436	2,605
Changes in work in process and finished products	(339)	(1,995)	(1,732)	(318)
Depreciation	47	277	256	357
Other expenses	493	2,898	1,971	1,321
	6,818	*40,069*	*26,483*	*13,707*

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

	For the year ended December 31,	*For the year ended December 31,*		
	2004	*2004*	*2003*	*2002*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**	**Adjusted NIS**
Materials consumed and subcontractors	5,610	32,969	21,552	9,742
Payroll and related benefits	1,007	5,920	4,436	2,605
Changes in work in process and finished products	(337)	(1,978)	(1,721)	(248)
Depreciation	47	277	256	357
Other expenses	406	2,387	1,971	1,321
	6,733	*39,575*	*26,494*	*13,777*

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

C. Research and development expenses, net

Unitronics (1989) (R"G) Ltd. Consolidated and Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2004	*2004*	*2003*	*2002*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**	**Adjusted NIS**
Payroll and related benefits	529	3,111	2,184	2,199
Subcontractors	29	172	509	610
Other expenses	212	1,251	609	646
Less - government participation	(62)	(365)	(247)	-
	709	*4,169*	*3,055*	*3,455*

D. Selling and marketing expenses

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2004	*2004*	*2003*	*2002*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**	**Adjusted NIS**
Salaries and related benefits	598	3,516	3,153	2,719
Travel and marketing abroad	74	436	379	493
Exhibits, advertising and other expenses	646	3,794	3,135	3,128
	1,318	*7,746*	*6,667*	*6,340*

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2004	*2004*	*2003*	*2002*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**	**Adjusted NIS**
Salaries and related benefits	520	3,053	2,720	2,336
Travel and marketing abroad	74	436	379	493
Exhibits, advertising and other expenses	456	2,684	2,499	2,789
	1,050	*6,173*	*5,598*	*5,618*

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

E. General and administrative expenses

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

	For the year ended December 31,	For the year ended December 31,		
	2004	2004	2003	2002
	(in thousands)			
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS	Adjusted NIS
Salaries and related benefits	293	1,722	1,564	1,535
Office rent, maintenance and communications	38	221	247	220
Depreciation	131	769	661	409
Professional services	241	1,418	773	1,224
Bad and doubtful debts	3	17	59	83
Others	92	544	276	301
	798	*4,691*	*3,580*	*3,772*

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

	For the year ended December 31,	For the year ended December 31,		
	2004	2004	2003	2002
	(in thousands)			
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS	Adjusted NIS
Salaries and related benefits	293	1,722	1,564	1,535
Office rent, maintenance and communications	10	60	74	99
Depreciation	127	745	654	404
Professional services	211	1,238	670	1,004
Bad and doubtful debts	-	-	18	83
Others	42	245	198	208
	683	*4,010*	*3,178*	*3,333*

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

F. Financing expenses, net

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2004	***2004***	***2003***	***2002***
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**	**Adjusted NIS**
Financing cost relating to convertible bonds	402	2,361	3,063	3,706
Loss (profit) from marketable securities, net	(67)	(396)	(90)	49
Gain on cash and cash equivalents and bank deposits	(174)	(1,021)	(572)	(2,200)
Financing cost relating to long term debt	105	617	636	78
Others	107	632	874	559
	373	*2,193*	*3,911*	*2,192*

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2004	***2004***	***2003***	***2002***
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**	**Adjusted NIS**
Financing cost relating to convertible bonds	402	2,361	3,063	3,706
Loss (profit) from marketable securities, net	(67)	(396)	(90)	49
Gain on cash and cash equivalents and bank deposits	(174)	(1,021)	(572)	(2,200)
Financing cost relating to long term debt	105	617	636	78
Others	121	712	969	545
	387	*2,273*	*4,006*	*2,178*

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

G. Transactions with interested and related parties

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

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2004	*2004*	*2003*	*2002*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**	**Adjusted NIS**
Salaries and related benefits (*)	258	1,513	1,557	1,733
Directors' remuneration (**)	11	66	85	51
Rental expenses	9	53	-	459

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2004	*2004*	*2003*	*2002*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**	**Adjusted NIS**
Sales revenues	700	4,113	2,632	1,529
Salaries and related benefits (*)	258	1,513	1,557	1,733
Directors' remuneration (**)	11	66	85	51
Rental expenses	9	53	-	459
General and administrative	60	351	-	-
Financing revenue (expenses)	(26)	(151)	(188)	59
(*) Number of recipients	2	2	2	2
(**) Number of recipients	3	3	3	3

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

Note 22 - Taxes on Income

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

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

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

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

C. On June 29, 2004 an adjustment to the income tax ordinance (no. 40 temporary provision) 2004, was approved by the government. This adjustment reduces the company tax rates in stages. Commencing 2004 the company tax rate will be 35% for 2004 and will decrease to 30% in the year 2007.

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

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

   In the event of a distribution of cash dividends from income which is tax exempt due to the above, the Company would have to pay Company tax at the rate of 25% on the amount distributed.

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

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

E. The taxes on income consist of the following:

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2004	***2004***	***2003***	***2002***
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**	**Adjusted NIS**
Deferred taxes	(5)	(32)	(111)	*(45)*
Taxes on income	(7)	(40)	-	-
	(12)	*(72)*	*(111)*	*(45)*

Note 22- Taxes on Income (cont'd)

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

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2004	*2004*	*2003*	*2002*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**	**Adjusted NIS**
Deferred taxes	*(5)*	*(32)*	*(111)*	*(45)*

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

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2004	*2004*	*2003*	*2002*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**	**Adjusted NIS**
Profit (loss) before taxes on income	502	2,951	(3,999)	(8,725)
Tax rate (%)	35	35	36	36
Theoretical tax	(176)	(1,033)	1,224	3,141
Increase in taxes resulting from non-deductible expenses	(17)	(99)	(127)	(111)
Temporary differences where deferred taxes were not recognized	171	1,005	(1,164)	(2,837)
Additional tax in respect of other differences	10	55	(44)	(238)
	(12)	*(72)*	*(111)*	*(45)*

Note 22 - Taxes on Income (cont'd)

Unitronics (1989) (R"G) Ltd. Company	*For the year ended December 31,*	*For the year ended December 31,*		
	2004	*2004*	*2003*	*2002*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**	**Adjusted NIS**
Profit (loss) before taxes on income	603	3,537	(2,937)	(8,119)
Tax rate (%)	35	35	36	36
Theoretical tax	(210)	(1,238)	1,057	2,923
Increase in taxes resulting from non-deductible expenses	(17)	(99)	(127)	(111)
Temporary differences where deferred taxes were not recognized	212	1,250	(997)	(2,619)
Additional tax in respect of other differences	10	55	(44)	(238)
	(5)	*(32)*	*(111)*	*(45)*

G. Deferred taxes

1. Changes:

Unitronics (1989) (R"G) Ltd. Consolidated and company	*For the year ended December 31,*	*For the year ended December 31,*		
	2004	*2004*	*2003*	*2002*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**	**Adjusted NIS**
Balance beginning of year	26	152	263	308
Changes during the year	(6)	(32)	(111)	(45)
Balance end of year	*20*	*120*	*152*	*263*

2. Balances:

Unitronics (1989) (R"G) Ltd. Consolidated and company	*December 31, 2004*	*December 31, 2004*	*December 31, 2003*
		(in thousands)	
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**
Other assets			
Accrued severance pay, net	48	285	267
Long term liabilities			
Depreciation of buildings	(28)	(165)	(115)
	20	*120*	*152*

Note 22 - Taxes on Income (cont'd)

H. Final tax assessments
The Company has final tax assessments for all years up to December 31, 1999.

I. Tax loss carry forward
As at December 31, 2004 the company's tax loss carry forward where deferred taxes were not recognized, amounts to approximately NIS 28,500 thousands (EURO 4,850 thousands).

Note 23 - Business and geographical segments

1. General

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

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

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

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

2. Primary report on business segments

A. Revenues

Unitronics (1989) (R"G) Ltd. Consolidated	*For the year ended December 31,*	*For the year ended December 31,*		
	2004	*2004*	*2003*	*2002*
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**	**Adjusted NIS**
Products	5,085	29,883	21,181	13,818
System integration projects	5,320	31,263	19,125	6,916
Other	106	625	-	-
	10,511	*61,771*	*40,306*	*20,734*

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

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

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

Unitronics (1989) (R"G) Ltd. Consolidated	For the year ended December 31,	For the year ended December 31,		
	2004	2004	2003	2002
		(in thousands)		
	Convenience translation into EURO, (unaudited)	Reported NIS (1)	Adjusted NIS (2)	Adjusted NIS (2)
Products	1,572	9,241	5,112 (*)	635 (*)
System integration projects	840	4,934	2,475 (*)	466 (*)
Other	19	114	-	-
Unallocated corporate expenses	(1,564)	(9,193)	(7,066) (*)	(7,641) (*)
Operating profit (loss)	867	5,096	521	(6,540)
Unallocated corporate financing expenses, net	(373)	(2,193)	(3,911)	(2,192)
Other income (expenses), net	8	48	(9)	7
Taxes on income	(12)	(72)	(111)	(45)
Profit (loss) for the year	*490*	*2,879*	*(3,510)*	*(8,770)*

(*) Re-classified.

C. Segment assets

Unitronics (1989) (R"G) Ltd. Consolidated	December 31, 2004	December 31, 2004	December 31, 2003
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS
Products	2,392	14,056	9,334
System integration projects	745	4,377	3,883
Other	16	183	-
Unallocated corporate assets	12,825	75,370	28,554
Consolidated total assets	*15,978*	*93,986*	*41,771*

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

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

D. Segment liabilities

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

	December 31, 2004	December 31, 2004	December 31, 2003
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS
Products	1,081	6,351	2,444
System integration projects	1,997	11,738	6,378
Other	30	177	-
Unallocated corporate liabilities	9,377	55,105	20,626
Consolidated total liabilities	*12,485*	*73,371*	*29,448*

E. Capital expenditure

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

	For the year ended December 31,	For the year ended December 31,		
	2004	2004	2003	2002
		(in thousands)		
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS	Adjusted NIS
Products	89	525	126	79
System integration projects	76	446	178	122
Unallocated capital Expenditure	574	3,375	3,866	8,568
Consolidated total capital expenditure	*739*	*4,346*	*4,170*	*8,769*

F. Depreciation and amortization

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

	For the year ended December 31,	For the year ended December 31,		
	2004	2004	2003	2002
		(in thousands)		
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS	Adjusted NIS
Products	26	152	136	153
System integration projects	26	151	128	208
Unallocated depreciation and amortization	306	1,796	1,339	1,211
Total depreciation and amortization	*358*	*2,099*	*1,603*	*1,572*

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

3. Secondary report on geographical segments

A. Revenues

Unitronics (1989) (R"G) Ltd. Consolidated	For the year ended December 31,	For the year ended December 31,		
	2004	2004	2003	2002
		(in thousands)		
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS	Adjusted NIS
Israel	5,811	34,149	21,412	10,161
Europe (*)	2,837	16,673	10,766	5,959
America	1,404	8,250	5,743	3,336
Other destinations	459	2,699	2,385	1,278
	10,511	*61,771*	*40,306*	*20,734*

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

B. Segment assets

Unitronics (1989) (R"G) Ltd. Consolidated	December 31, 2004	December 31, 2004	December 31, 2003
		(in thousands)	
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS
Israel	14,700	4,712	3,136
Europe	802	1,190	854
America	202	1,628	1,285
Other destinations	277	68	26
Unallocated corporate assets	12	86,388	36,470
Consolidated total assets	*15,993*	*93,986*	*41,771*

C. Capital expenditure

Unitronics (1989) (R"G) Ltd. Consolidated	For the year ended December 31,	For the year ended December 31,		
	2004	2004	2003	2002
		(in thousands)		
	Convenience translation into EURO, (unaudited)	Reported NIS	Adjusted NIS	Adjusted NIS
America	26	153	17	1
Unallocated capital expenditure	713	4,193	4,153	8,768
Consolidated total capital expenditure	*739*	*4,346*	*4,170*	*8,769*

Note 24 - Profit (loss) per share

Unitronics (1989) (R"G) Ltd. Consolidated and company	*For the year ended December 31*	*For the year ended December 31,*		
	2004	***2004***	***2003***	***2002***
		(in thousands)		
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**	**Adjusted NIS**
Profit (loss) for the period				
Basic and Fully diluted	490	2,879	(3,510)	(8,770)
Weighted average share capital (nominal NIS)				
Basic and Fully diluted	277	277	179	177

Note 25 - Financial Instruments and risk management

Credit Risks

As at December 31, 2004 the company (consolidated) had trade account receivables and other account receivables amounting to approximatly NIS 7,765 thousands. The company does not predict material credit risks in respect of trade account receivables and other account receivables.

Fair value of financial instruments

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

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

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

Nominal figures of the Company.

A. Balance sheets

Unitronics (1989) (R"G) Ltd.	Convenience translation into EURO, (unaudited)	Nominal NIS, (audited)	
	December 31, 2004	December 31, 2004	December 31, 2003
		(in thousands)	
Cash and cash equivalents	3,510	20,630	5,891
Marketable securities	4,788	28,136	1,045
Bank deposit			
Accounts receivable -			
Trade	1,014	5,958	4,246
Other	746	4,387	2,992
Inventory	1,623	9,537	6,148
Inventory - work in progress	75	443	1,348
Current assets	*11,756*	*69,091*	*21,670*
Long-term deposits	*23*	*133*	*116*
Investment in subsidiaries	*13*	*75*	-
Property and equipment	*3,863*	*22,705*	*21,113*
Other assets	*706*	*4,150*	*532*
Total assets	***16,361***	***96,154***	***43,431***
Credit from banks and others	190	1,114	812
Accounts payable -			
Trade	2,300	13,514	6,247
Other	1,710	10,056	6,465
Current liabilities	*4,200*	*24,684*	*13,524*
Long-term debt	1,883	11,062	11,745
Convertible bonds	6,509	38,252	4,413
Accrued severance pay, net	194	1,140	1,068
Deferred taxes	27	161	116
Long-term liabilities	*8,613*	*50,615*	*17,342*
Share capital	40	234	218
Share premium	7,961	46,788	42,067
Receipts on account of warrants	115	676	-
Accumulated loss	(4,568)	(26,843)	(29,720)
Shareholders' equity	*3,548*	*20,855*	*12,565*
Total liabilities and shareholders' equity	***16,361***	***96,154***	***43,431***

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

B. Statements of operations

Unitronics (1989) (R"G) Ltd.	**Convenience translation into EURO, (unaudited)**	**Nominal NIS, (audited)**		
	For the year ended December 31,	*For the year ended December 31,*		
	2004	*2004*	*2003*	*2002*
		(in thousands)		
Revenues	10,157	59,689	39,976	20,359
Cost of revenues	6,735	39,578	27,021	13,524
Gross profit	*3,422*	*20,111*	*12,955*	*6,835*
Research & development expenses, net	708	4,163	3,084	3,481
Selling & marketing expenses	1,050	6,170	5,658	5,648
General & administrative expenses	683	4,013	3,290	3,335
Operating profit (loss)	*981*	*5,765*	*923*	*(5,629)*
Financing expenses, net	388	2,281	3,478	2,094
Operating profit (loss) after financing expenses, net	*593*	*3,484*	*(2,555)*	*(7,723)*
Other income (expenses), net	7	45	(9)	21
Profit (loss) before taxes on income	*600*	*3,529*	*(2,564)*	*(7,702)*
Taxes on income	4	26	118	26
Profit (loss) after taxes on income	*596*	*3,503*	*(2,682)*	*(7,728)*
The Company's share of subsidiaries losses	106	626	456	632
Profit (loss) for the year	*490*	*2,877*	*(3,138)*	*(8,360)*

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

C. Statements of Shareholder's Equity

Unitronics (1989) (R"G) Ltd.	**Nominal NIS, (audited)**				
	Share Capital	***Share premium***	***Receipts on account of warrants***	***Accumulated loss***	***Total***
			(in thousands)		
Balance at January 1, 2002	177	28,544	-	(18,222)	10,499
Loss for the year	-	-	-	(8,360)	(8,360)
Balance at December 31, 2002	177	28,544	-	(26,582)	2,139
Issue of share capital	3	429	-	-	432
Conversion of convertible bonds	38	13,094	-	-	13,132
Loss for the year	-	-	-	(3,138)	(3,138)
Balance at December 31, 2003	*218*	*42,067*	-	*(29,720)*	*12,565*
Issue of share capital	16	4,721	-	-	4,737
Receipts on account of warrants	-	-	*676*	-	676
Profit for the year	-	-	-	2,877	2,877
Balance at December 31, 2004	*234*	*46,788*	*676*	*(26,843)*	*20,855*

	Convenience translation into EURO, (unaudited)				
	Share Capital	***Share premium***	***Receipts on account of warrants***	***Accumulated loss***	***Total***
			(in thousands)		
Balance at January 1, 2004	38	7,158	-	(5,058)	2,138
Issue of share capital	2	803	-	-	805
Receipts on account of warrants	-	-	115	-	115
Profit for the year	-	-	-	490	490
Balance at December 31, 2004	*40*	*7,961*	*115*	*(4,568)*	*3,548*

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

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

1. Effect of inflation

   According to Israeli GAAP, as described in Note 2D, the financial statements as of the dates and for the reported periods subsequent to December 31, 2003, are presented in reported amounts, in conformity with Accounting Standards of the Israel Accounting Standards Board. The financial statements as of the dates and for the reported periods until the aforementioned date are presented in values that were adjusted until that date according to the changes in the general purchasing power of the Israeli currency, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel. According to IAS 29 Financial Reporting in Hyperinflationary Economies, the effects of price level changes in an inflationary environment should be applied only to financial statements of an enterprise that reports in the currency of a hyperinflationary economy. Since the NIS is not a currency of a hyperinflationary economy, the financial statements should be presented in nominal, historical figures, as set forth in Note 26.

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

2. Profit (loss) per share

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

According to the International Financial Reporting Standards the profit (loss) per share is as follows:

Unitronics (1989) (R"G) Ltd.	*For the year ended December 31,*	*For the year ended December 31,*		
	2004	*2004*	*2003*	*2002*
	Convenience translation into EURO, (unaudited)	**Reported NIS**	**Adjusted NIS**	**Adjusted NIS**
Profit (loss) for the period(in thousands)	432	2,539	(3,510)	(8,770)
Weighted average number of shares	11,343,213	11,343,213	8,964,681	8,864,388
Profit (loss) per ordinary Share	0.04	0.22	(0.39)	(0.99)

3. Convertible Bonds

According to Israeli GAAP, convertible bonds are included on the basis of the probability of conversion (see Note 2O).
According to IAS 32 the company, de facto, issued one financial instrument that contains both a liability and an equity element. Therefore on the initial recognition the company is required to classify the instrument's component parts separately as a liability (a contractual arrangement to deliver cash) and as equity (a call option granting the holder the right, for a specified period of time, to convert into common shares of the issuer). Such a classification has an unfavorable impact on the statements of operation as long as the convertible bonds are out standing.
As regard to the financial statements reported the impact of such a classification on the statements of operation is immaterial for the periods up to December 31, 2003. The impact of such a classification on the net profit for the year 2004 is a decrease of NIS 340 thousands.

4. Convenience translation

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

Note 28 – Events after the balanced date

After the balance sheet date, the Company's audit committee and board of directors resolved, to grant Mr. Haim Shani - the Company's Chief Executive Officer and chairman of the board of directors (hereinafter: "**Mr. Shani**"), a bonus (the "**Special Bonus**"), as consideration for his contribution to the Company's successful performance over the previous years in general and during the year 2004 in particular. The Special Bonus will be in an amount of NIS 400,000 (aprox. Euro 69,000).

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

The above resolutions are subject to the approval of a general meeting of the Company's shareholders.

Chapter D – Further Details on the Corporation (Reg. 10C - 29A)

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

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

The proceeds of the offering were intended, pursuant to the Israeli prospectus, for financing the Company's operations, as the Company's Board of Directors would decide from time to time. In addition, in the prospectus the Company advised that it may use approx. NIS 13,000,000 (which constitutes approx. 38% of the net proceeds of the offering) for the repayment of loans and credit that it received in connection with the purchase of rights in the Company's floors (the ground floor and the first floor at Unitronics House, as stated in section 1.19.1 above) which amounted to approx. NIS 12,535,000 as of December 31, 2004. In the reported year, the Company did not make use of the proceeds of the offering for the repayment of said loans and credit.

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

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

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

The Subsidiary	Balance Sheet Cost	Book Value	Rate of Company's holdings in equity, voting and in power to appoint directors out of the total issued shares
	NIS 000's		
Unitronics House Management and Maintenance (2003) Ltd.	1	75	100.00%
Unitronics Inc. (foreign company)	*	(2,224)	100.00%

(*) Less than NIS 1,000

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

N/A.

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

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

For the year ended December 31, 2004:

Subsidiary	Profit (Loss) Before Tax	Profit (Loss) After Tax	Dividend	Management Fees	Interest Income
NIS 000's					NIS 000's
Unitronics House Management and Maintenance (2003) Ltd.	114	74	-	-	-
Unitronics Inc. (foreign	(741)	(741)	-	-	-

company)					

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

4.5 List of Loans (Reg. 14)

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

4.6 Trading on the Stock Exchange (Reg. 20)

Below are details regarding the Company's securities which were listed for trading on the Stock Exchange in the reported year or in which trading was halted during this period:

On May 24, 2004, following the publication of the Israeli prospectus and the raising of capital pursuant thereto, the following were listed for trading on the Tel Aviv Stock Exchange: 800,000 Ordinary Shares, Name of the Security – Unitronics, No. of the Security – 1083831, ISIN – IL0010838311, Symbol - (UNIT); 1,000,000 option instruments (Series 1) exercisable into Ordinary Shares, Name of the Security – Unitronics AP1, No. of the Security – 1090349, ISIN – IL0010903495, Symbol - (UNIT.W1); NIS 35,000,000 in par value of bonds (Series 1), convertible into Ordinary Shares, name of the security – Unitronics AC1, No. of the Security – 1090356, ISIN – IL0010903560, Symbol - (UNIT.C1).

In addition, the following were concurrently listed for trading on the Tel Aviv Stock Exchange: 10,876,546 Ordinary Shares that were then traded on the EuroNext Stock Exchange in Belgium; 1,000,000 Ordinary Shares that would be derived from the exercise of 1,000,000 option instruments (Series 1) and 3,888,889 Ordinary Shares that would be derived from the conversion of the bonds (Series 1); and 2,384,311 Ordinary Shares that would be derived from the conversion of bonds (not listed) and the exercise of options (not listed) that were allotted to interested parties, to employees, to a trustee for employees, to consultants and to various investors.

On June 22, 2004, a further 300,000 option instruments (Series 1), which had been allotted to the Company's underwriters in the prospectus (see section 1.4 above), were listed for trading on the Tel Aviv Stock Exchange.

In July 2004, the Company published a prospectus in Belgium for the purpose of listing for trading on the EuroNext Stock Exchange in Belgium, 7,875,200 Ordinary Shares of the Company that were offered pursuant to the Israeli prospectus and/or that would derive from the exercise of the convertible securities issued pursuant thereto. On July 12, 2004, 800,000 Ordinary Shares were listed for trading on the EuroNext Stock Exchange (in addition to the 10,876,546 shares of the Company that had been traded there prior to that time), which were offered and issued pursuant to the Israeli prospectus. An additional, maximum amount of 7,075,200 shares of the Company that would derive from the conversion and/or exercise of the option instruments (Series 1) and the bonds (Series 1) that were issued pursuant to the Israeli prospectus will be listed for trading on the EuroNext Stock Exchange at a later date, which shall be determined precisely in accordance with the date of the exercise and/or the conversion of those securities, and subject to the Company's notice to the authorities in Belgium in this regard.

As at the date of this report, 11,676,546 Ordinary Shares of the Company having a par value of NIS 0.02 each were listed for trading on the EuroNext Stock Exchange in Belgium.

4.7 Payments to Senior Officers (Reg. 21)

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

Officer	**Salary and Related Payments in NIS 000's**	**Supplemental Payments**
Assistant to the CEO and	989	See section 1.22.4 above.

Systems Department Manager		
CEO and Chairman of the Board of Directors	981	See section 1.22.4 above.
Deputy CEO and Products Department Manager	833	See section 1.22.4 above.
Assistant to the CEO and Chief Technology Officer	601	See section 1.22.4 above.
Deputy CEO and Human Resources Manager	532	See section 1.22.4 above.

4.8 Fees and Benefits (Reg. 22)

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

4.8.1 During the reported period, the Company paid to interested parties employed by the Company a total amount of NIS 1,579,000, (including related payments) according to the following breakdown:

Interested Party	**Paid By Balance Sheet Date NIS 000's**
Haim Shani	981
Bareket Shani	532
Other directors	66

4.8.2 Effective from August 2004, the Company has been renting, from a wholly-owned company of the interested parties, Mr. Haim Shani and Mrs. Bareket Shani, approx. 200 sq.m. on the Private Floors of Unitronics House, upon terms identical to those pursuant to which areas are let on the Private Floors to third parties, and which also reflect customary terms of rental in Airport City in general (for further details, see section 1.19.2 above). During the reported period, the Company undertook to pay to the said lessors a total amount of approx. NIS 53,000 in respect of this rental.

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

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

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

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

In the Company:

Name of Holder	**Ordinary Shares**	**Bonds (Series 1)**	**Option Instruments (Series 1)**	**Options (not listed)**	**% of issued capital**	**% of voting**	**% of issued capital**	**% of voting**
					Without dilution		**With full dilution**	
Haim Shani[1]	[2] 6,092,551	----	200,000	[3]10,000	52.17%	[4]55.60%	32.74%	[4]34.81%

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

[2] These shares also include 50 shares of the Company that are held by Corpus Colossum Ltd., a private company, registered in Israel, in which Mr. Shani holds, in full, the share capital and the voting rights. In addition, these shares also include 50,000 shares of the Company which Mr. Shani provided to the Company's Sponsor Market Maker pursuant to a market making agreement in accordance with the requirements applicable to the Company as a company whose shares are traded on the EuroNext Stock Exchange in Brussels, in order to assure the frequency and liquidity of the trading in the Company's shares on the Belgian Stock Exchange. These shares are held by Interprofessionelle Effeotendeposito - en Girokas N.V. - Caisse Interprofessionelle de Depots et de Virements de Titres S.A. (hereinafter: "**CIK**") which is registered in the Company's shareholders' register as a shareholder; to the best of the Company's knowledge, in keeping with standard practice in Belgium and the CIK regulations, in Belgium this entity acts as a registry and clearing house, with whom shares of the companies trading on the Belgian Stock Exchange are deposited, pursuant to a general power of attorney, and the various trading transactions

Other Directors[5]	0	-----	0	30,000	0	0	Less than 1%	Less than 1%

In subsidiaries and related companies:

N/A.

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

4.10.1 Registered and Issued Capital

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

The Company's issued capital is NIS 233,530.92 comprising 11,676,546 Ordinary Shares having a par value of NIS 0.02 each.

4.10.2 Convertible Securities – General

which are executed with the shares on the Stock Exchange by banks, brokers and other authorized entities are registered in its registers. In this manner, the CIK functions in a capacity similar in its essence to that of the listing companies in Israel, and it is through CIK that the listing of the Company's shares which are traded on the Belgian Stock Exchange is implemented; the shareholders purchasing the Company's shares on the Belgian Stock Exchange make the purchase transaction (or the sale) through a securities account under their name at financial institutions (brokers, banks, etc.) which are, directly or indirectly, members of the CIK system. The Company is not aware of any other interested parties besides those specified above.

[3] Options that were granted under the 1999 plan (as defined in section 4.10.3 below), which are exercisable into Ordinary Shares by June 2007, at an exercise price of 1.00 euro per share. In addition to the said options, and in accordance with his employment contract, Mr. Shani is entitled to additional options (see section A1.22.4 above).

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

[5] Options that were granted under the 1999 plan (as defined in section 4.10.3 below), which are exercisable into Ordinary Shares by June 2007, at an exercise price of 1.00 euro per share. Out of these, Mrs. Bareket Shani, the wife of Mr. Haim Shani, who serves as a director of the Company and as the Deputy CEO, and also Messrs. Zvi Livne and Shraga Zur, who serve as directors of the Company, each hold options to purchase 10,000 shares. Furthermore, in accordance with her employment contract, Mrs. Shani is entitled to additional options (see section 1.22.4 (a) above).

The Company's capital includes convertible securities as follows:

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

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

c. Bonds whose terms are as set forth in section 1.4.2 above and which are not listed for trading on the Stock Exchange.

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

4.10.3 Convertible Securities – Option Plans

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

a. The 1999 Option Plan

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

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

As at the date of the report, options have been granted under the 1999 Plan for the purchase of 435,250 Ordinary Shares, of which options to purchase 288,000 shares expired in December 2004, pursuant to the terms thereof, without exercise (see further details in section 4.10.4 below).

b. <u>The 2001 Option Plan</u>

The May 2001 Option Plan (hereinafter: the "**2001 Plan**") for the employees, officers and consultants of the Company or the

Company's subsidiaries, includes a framework for the purchase of 950,000 Ordinary Shares until the year 2011. The terms of the 2001 Plan are essentially similar to the terms of the 1999 Plan. As at the date of the report, options have been granted under the 2001 Plan for the purchase of 793,499 Ordinary Shares, of which options to purchase 3,000 shares were cancelled, pursuant to the terms thereof (see further details in section 4.10.4 below).

c. The 2003 Option Plan

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

As at the date of the report, options have been granted under the 2003 Plan for the purchase of 502,000 Ordinary Shares, to employees who are not interested parties, of which options to purchase 16,000 shares expired prior to the date of this report, pursuant to the terms thereof, without exercise; the balance of the options to purchase 498,000 shares were granted to a trustee on behalf of the Company, and are intended to be transferred from time to time to employees who are not interested parties by virtue of their holdings (see further details in section 4.10.4 below).

4.10.4 Convertible Securities – Summary Information

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

Type of convertible security/ option plan	Amount of Ordinary Shares, NIS 0.02 par value each, that was reserved	Amount of shares underlying the securities allotted/ actually granted by the date of the report	Amount of shares vested as at the date of the report	Exercise Price	Expiration Date
Bonds (Series 1)[6]	3,888,889	3,888,889	3,888,889	NIS 8.13	9.5.2010
Option Instruments (Series 1)[7]	1,300,000	1,300,000	1,300,000	* NIS 7.55	23.5.2008
Bonds[8]	158,562	158,562	158,562	Euro 4.73	7.8.08
1999 Plan[9]	440,000	288,000	0 (Expired)	Euro 3.80	2.12.04
		35,000	23,334	Euro 0.82	30.6.07
		62,250	62,250	Euro 1.00	31.10.05
		50,000	50,000	Euro 1.00	30.6.07
2001 Plan [10]	950,000	376,500	251,002	Euro 2.70	28.6.06
		39,999	39,999	Euro 4.73	11.3.06
		15,000	15,000	Euro 4.75	11.3.06
		359,000	179,500	Euro 0.91	30.6.07
2003 Plan[11]	1,000,000	397,000	0	Euro 1.30	22.1.09
		105,000	0	Euro 1.30	21.1.10
		** 498,000	0	-	-
TOTAL	7,737,451	7,573,200	5,968,536		

(*) Linked to the representative rate of exchange of the US dollar.
(**) Granted to Trustee as detailed in Section 4.10.3 (c) above.

[6] For further details, see section 1.30.4 above.
[7] For further details, see section 1.30.5 above.
[8] For further details, see section 1.4.2 above.
[9] For further details, see section 4.10.3 (a) above.
[10] For further details, see section 4.10.3 (b) above.
[11] For further details, see section 4.10.3 (c) above.

4.11 The Directors of the Corporation (Reg. 26)

4.11.1 Details of the Directors: Below are details with regard to each one of the directors of the Company, according to the following sub-sections: (1) the name of the director; 1(a) his ID number; (2) his date of birth; (3) his address for service of process; (4) his citizenship; (5) his membership of a committee or committees of the Board of Directors; (6) is he an external director as defined in the Companies Law – yes/ no; (7) is he an employee of the Company, of its subsidiary, of a related company or of an interested party in the Company – the position or positions which he holds as stated; (8) the date on which he assumed office as a Company director; (9) his education and his employment in the last five years and details of the corporations at which he serves as a director; (10) whether he is, to the best of the knowledge of the Company and its other directors, a relative of another interested party in the Company – yes/ no, and details.

a. (1) Haim Shani; (1a) 056548142; (2) July 31, 1960; (3) 83 Adolam Street, Shoham; (4) Israeli; (5) Chairman of the Board of Directors of the Company and a member of the Securities Committee; (6) No; (7) Yes, CEO of the Company, a director and the senior officer of Unitronics House Management and Maintenance (2003) Ltd., director and president of Unitronics Inc.; (8) August 20, 1989; (9) High-school; serves as a director of Cardiosense Ltd., Corpus Colossum Ltd., Natrix Ltd., Unitronics (1996) (Lod) Ltd. and Unitronics Industrial Control and Robotics (1991) Ltd. (which are not affiliated with the Company); (10) Yes, the husband of Mrs. Bareket Shani, a director and officer of the Company (see details below).

b. (1) Bareket Shani; (1a) 058136631; (2) June 30, 1963; (3) 83 Adolam Street, Shoham; (4) Israeli; (5) Director and a member of the Securities Committee and of the Credit and Investments Committee; (6) No; (7) Yes, Deputy CEO and Human Resources Manager, a director of Unitronics House Management and Maintenance (2003) Ltd.; (8) July 6, 1999; (9)

Academic; serves as a director of Unitronics (1996) (Lod) Ltd. and Unitronics Industrial Control and Robotics (1991) Ltd. (which are not affiliated with the Company); (10) Yes, the wife of Mr. Haim Shani, Chairman of the Board of Directors and CEO of the Company.

c. (1) Zvi Livne; (1a) 010025658; (2) July 22, 1947; (3) 20 Yohanan Hasandlar Street, Haifa; (4) Israeli; (5) Director, member of the Audit Committee, director with accounting skills; (6) No; (7) Yes, a director of Unitronics House Management and Maintenance (2003) Ltd.; (8) July 8, 1999; (9) Academic; serves as a financial and commercial advisor to a number of Israeli companies; senior partner at the accounting firm, Shifer, Fogel & Livne, CPA; (10) No.

d. (1) Shraga Zur; (1a) 006119689; (2) May 10, 1936; (3) 17 Haharuv Street, Ramat Hasharon; (4) Israeli; (5) Director, member of the Audit Committee and a member of the Securities Committee; (6) Yes; (7) No; (8) December 27, 2000; (9) Academic; serves as an independent consultant in the economic – business field, primarily to companies in the Israeli high-tech sector, including companies with international operations; (10) No.

e. (1) Ron Mishael; (1a) 056589971; (2) April 23, 1960; (3) 7 Menachem Begin Street, Ramat Gan, Beit Gibor Sport; (4) Israeli; (5) Director, member of the Audit Committee, member of the Credit and Investments Committee and a director with accounting skills; (6) Yes; (7) No; (8) October 2, 2002; (9) Academic; senior partner at the accounting firm, Mishael-Rosenberg; financial consultant to private companies. Serves as an internal auditor at Mafil Ltd.; served as an external director of Reshef Computers and Peripheral Equipment (1982) Ltd. from 1997 – 2002; also serves as a director of Ron Mishael, CPA, R.A.M. Financial Services Ltd. and of Moral Financial Services Ltd.; serves as an external director of Gena Ltd. (public company); (10) No.

4.11.2 Directors with Accounting Skills: At the meeting of the Company's Board of Directors held on March 18, 2004, the Company's Board of Directors determined, in accordance with the directive of the Securities Authority pursuant to section 36(a) of the Securities Law, 5728 – 1968, that the appropriate minimum number of directors of the Company with accounting and financial skills, taking into consideration, among other things, the size of the Company, the type of its operations, its complexity, etc., would be one director, for such time as the Company's Board of Directors comprises up to six members. In actual fact, two directors with accounting and financial skills serve at the Company, namely Messrs. Zvi Livne and Ron Mishael, out of five members of the Board of Directors.

4.12 Senior Officers (Reg. 26A)

Below are details with regard to each of the senior officers of the Company, whose details were not set forth in section 4.11 above, according to the following sub-sections: (1) the name of the officer; 1(a) his ID number; (2) his date of birth; (2a) the date on which he assumed office; (3) the position he holds at the Company, at a subsidiary, at a related company or at an interested party in the Company; (4) is he a relative of another senior officer or of interested party in the Company – yes/ no (5) his education and his employment in the last five years.

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

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

c. (1) Alon Kedar; (1a) 057410102; (2) December 4, 1961; (2a) June 1, 1999; (3) Deputy CEO and Products Department Manager; (4) No; (5)

Academic, before joining the Company, served as the Marketing Manager of Zag Industries Ltd.

d. (1) Yonatan Roman; (1a) 031277031; (2) June 10, 1954; (2a) March 1, 2003; (3) Assistant to the CEO and Systems Department Manager; (4) No; (5) Academic, from 1992 to the time he joined the Company, he served as co-CEO of Programma Ltd. and CEO of Ma'of Projects Ltd.

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

4.13 The Corporation's Accountant (Reg. 27)

Amit Halfon, CPA – 1 Yagia Kapayim Street, Tel Aviv.

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

Below are details of all the modifications made in the reported year to the Company's Articles or Memorandum of Association:

4.14.1 On April 13, 2004, in accordance with the recommendation of the Company's Board of Directors that such a measure is required in order to enable the issuance of the Company's securities in the Tel Aviv Stock Exchange, the Company's General Meeting adopted a resolution to increase the Company's registered capital by a further NIS 1,500,000, so that the Company's registered capital will be NIS 2,000,000, divided into

100,000,000 Ordinary Shares having a par value of NIS 0.02 each. In accordance with this resolution, on April 13, 2004, the General Meeting adopted a resolution to amend Article 4 of the Company's Articles of Association by replacing Article 4 with the text set forth below (in a free translation from the English):

> "The Company's registered capital is two million New Israel Shekels (NIS 2,000,000) divided into one hundred million (100,000,000) Ordinary Shares having a nominal value of NIS 0.02 each, all of which rank *pari passu* (hereinafter: the "**Shares**").

4.14.2 In addition, the General Meeting adopted the resolution, on April 13, 2004, to replace Article 47 of the Articles of Association with the text set forth below (in a free translation from the English):

> "No business shall be transacted at a General Meeting unless a quorum is present. The quorum at any General Meeting shall be two shareholders being present (in person or by proxy), holding or representing at least thirty percent (30%) of the total voting rights of the Company on the effective date."

4.14.3 In addition, the General Meeting adopted a resolution, on April 13, 2004, in accordance with the recommendation of the Board of Directors, to amend a *lapsus calami* that had occurred in the former text of the Company's Articles, in Article 87, so that the words "shareholders" would be replaced with the words "members of the Board of Directors" (in a free translation from the English).

4.15 Recommendations and Resolutions of the Board of Directors (Reg. 29)

Below are details of the recommendations of the directors to the General Meeting and their decisions which do not require the approval of the General Meeting with regard to a dividend, change of capital, redemption of shares, redemption of bonds and certain transactions of interested parties:

4.15.1 In May 2004, the Company's Board of Directors resolved to allot 800,000 Ordinary Shares; NIS 35 million par value in bonds (Series 1), convertible into Ordinary Shares; and 1,000,000 option instruments (Series 1) exercisable into Ordinary Shares, within the framework of the capital raising pursuant to the Israeli prospectus (see section 1.4 above).

4.15.2 In June 2004, the Company's Board of Directors resolved to issue 300,000 option instruments (Series 1) to three of the underwriters of the Israeli prospectus (see section 1.4 above).

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

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

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

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

up and supervision of the investment after it was made, and any act performed by an officer in connection therewith.

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

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

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

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

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

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

8. A change to the Company's structure or reorganization or any decision with regard to the above, including, but without derogating from the

generality of the foregoing, a merger, spin-off, change in the capital of the Company, a subsidiary or related companies, the dissolution or sale thereof, the allotment of a security of any class of the Company, a subsidiary or a related company, or the implementation of a Distribution (as defined in the Companies Law) or a purchase offer by or in connection with any of the above.

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

10. Civil or criminal actions relating to the usual and regular course of business of the Company, and also to extraordinary transactions of the Company.

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

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

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

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

15. Actions in connection with documents relating to the matters listed above or in connection with acts or resolutions relating to the matters listed above, or in connection with representations and undertakings that were

given in connection with the matters listed above, including such representations and undertakings that were given to third parties or to the Company, a subsidiary or a related company, or to any party on its behalf (including to its consultants, such as accountants, attorneys, etc.).

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

With regard to the events listed above:
The "**Securities Law**" – The Securities Law, 5728 – 1968.
The "**Companies Law**" – The Companies Law, 5759 – 1999.
"**Security**" – as defined in section 1 of the Companies Law.

4.16.2 Insurance: The Company's Board of Directors resolved, on March 18, 2004 (and the resolution was approved by the General Meeting of the Company's Shareholders of April 13, 2004) to renew, from time to time, under similar conditions, the Company's Officers and Directors Liability Insurance policy (the Company's officers are insured against claims in respect of officers' liability up to an amount of US$ 2,000,000 per event and in total, in respect of damages that could occur during the period of the insurance, and a further US$ 400,000 in respect of legal defense costs in Israel. The basic coverage was extended to jurisdiction around the world, including the USA and Canada. The deductible applies only to the Company and not to the officer or the director. The amount of the deductible in respect of claims filed anywhere is US$ 10,000) for additional periods of up to 18 months each time.

On January 26, 2005, the Company's Audit Committee and the Board of Directors resolved, in the course of a comprehensive review of the Company's insurance coverage in the various fields, to increase the insurance coverage stated above to an amount of US$ 5,000,000 per event and in total, in respect of damages that could occur during the period of the insurance (and a further US$ 1,000,000 in respect of legal defense costs in Israel) and to increase the Company's deductible in respect of claims filed in the USA and in Canada to an amount of US$ 50,000 per event. The extended period of the insurance shall apply effective from December 1, 2004, to November 30, 2005, and retroactively, from August 9, 1989, all subject to the approval of the General Meeting of the Company's Shareholders in accordance with section 273 of the Companies Law, 5759 – 1999; in addition, it was resolved to authorize the Company's management to renew from time to time under similar conditions, the Company's Officers and Directors Liability Insurance policy for additional periods of up to 18 months each time.

______________________________ March 20th, 2005

Unitronics (1989) (R-G) Ltd.

By Haim Shani, CEO and Chairman of the Board of Directors

Zvi Livne, Director