



Security without boundaries

MAGAL ANNUAL REPORT 2004



Magal Security Systems, Ltd. is committed to bringing proven experience, personal attention and a fresh approach to every security challenge. We are proud for our excellent worldwide track record in implementing effective and reliable security systems. Our success is driven by innovation, ingenuity and with that in mind we are looking forward to the future.



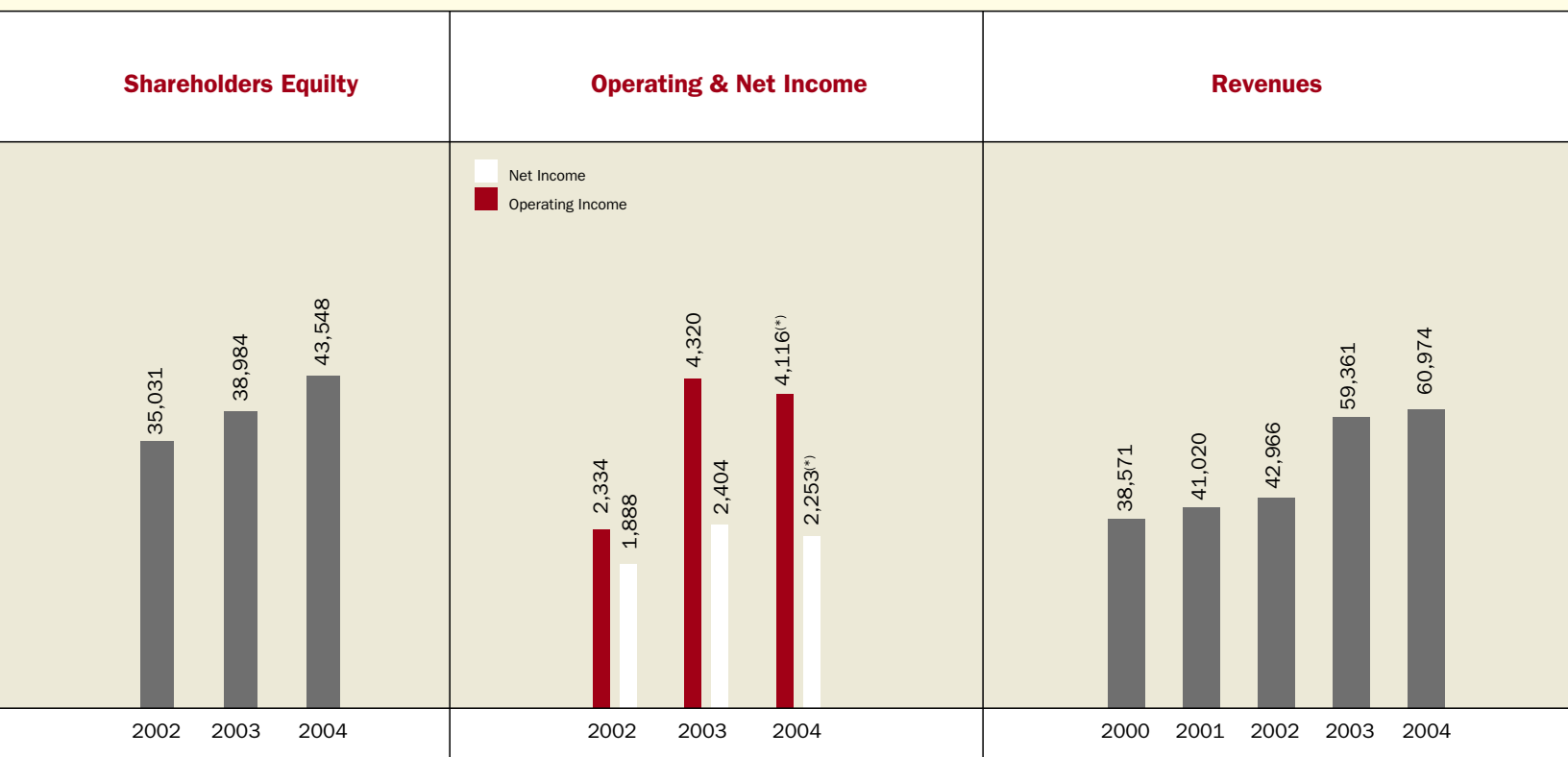
2 | 3

FINANCIAL HIGHLIGHTS

(US Dollars in thousands except per share data)

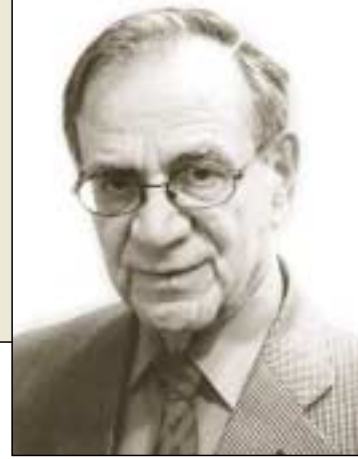
	Year Ended December 31,				
	2004	2003	2002	2001	2000
Revenues	60,974	59,361	42,966	41,020	38,571
Gross profit	27,249	25,983	19,042	19,515	18,048
Operating income	(*)4,116	4,320	2,334	3,579	3,283
Net income	(*)2,253	2,404	1,888	3,167	2,889
Diluted net earnings per share	(*)0.26	0.29	0.22	0.38	0.36
Weighted average number of ordinary shares used in computing diluted net earnings per share (in thousands)	8,636	8,430	8,472	8,321	8,138
Working capital	21,603	21,401	15,688	18,391	20,288
Total assets	77,976	71,443	59,741	53,347	48,867
Shareholders' equity	43,548	38,984	35,031	32,700	30,899

* Excluding US\$1.2 million award expenses given by the major shareholders to employees.



* Excluding US\$1.2 million award expenses given by the major shareholders to employees.

45



Mr. Jacob Even-Ezra
Chairman of the Board & CEO

Dear

Shareholders

I am pleased to report that we grew our business during the past year, achieving record revenues in 2004.

Total revenues reached US\$61 million in 2004, an increase of 2.7 percent compared to 2003. The increase in revenues was principally due to the growth in our international sales.

Operating and net income for 2004, reached US\$2.9 million and US\$1.1 million, respectively, compared with US\$4.3 million and US\$2.4 million, respectively, in 2003. This represents a decrease of 32.5 percent and 56.2 percent, respectively, over 2003 results.

In the second quarter of 2004, the Company's two major shareholders, Mr. N. Kirsh and myself, announced that as part of the celebration of the 20th anniversary of Magal's founding, we would personally

make an award of \$1.2 million to be distributed among all of the Company's employees worldwide, in gratitude for their efforts and participation in the Company's growth and achievements. The award was allocated among the employees according to the discretion of management. However, in accordance with the generally accepted accounting principles (GAAP) in the United States, the award was recorded in Magal's second quarter statement of income as a \$1.2 million expense, although it had no affect whatsoever on the Company's shareholders' equity or its statement of cash flows.

Revenues that were generated from markets outside of Israel increased as expected in 2004 and more than offset the decrease in income from the seam-line project in Israel. This project, which made a significant contribution to Magal's revenues in 2003,

was stalled due to litigation in Israel.

Management is satisfied with the fact that the Company was once again able to show its strength in the international markets and that the Company's revenues increased in 2004 despite the weakness in the Israeli market. We are pleased that Magal signed a new \$6.1 million framework agreement for the seam-line project in March 2005, and we expect to win further orders for work on the seam-line during this year.

During the first quarter of 2004, we launched three new products. These were the Fortis Integrated Command and Control System, the PipeGuard Pipeline Security System and the DreamBox, an all-in-one CCTV solution. During the year, we installed several Fortis systems and few DreamBox systems. We expect to install a test site for the PipeGuard system during 2005. The time taken to reach initial sales was expected and is due





Mr. Peter Goering
President of
Senstar GmbH



Mrs. Martha A. Lee
President of
Perimeter Products, Inc.



Mr. Brian G. Rich
President of
Senstar-Stellar Corporation



Mr. Izhar Dekel
President of
Magal Security Systems, Ltd.

to the long trial periods associated with this product. These newly developed products will significantly expand the markets we sell to and guarantee the future growth of our business.

In addition, during the last quarter of 2004, two of Magal's fully owned subsidiaries received approximately US\$4.5 million in orders for a number of projects for perimeter security systems that will be used to protect sensitive installations. The majority of these installations are situated in Mexico. We have completed the majority of the work associated with these projects, and the balance will be completed during the first half of 2005.

During the year 2004, Magal continued to strengthen its position as a provider of turnkey solutions in the global security markets and executed a number of projects. We received follow-on orders of US\$7.1 million to protect an international airport in Eastern Europe. Over the course of 2004, we also increased our activity in the US Homeland Security market.

Management made a decision to reduce the expenses of Smart Interactive Systems, Inc., the Company's subsidiary that is engaged in real-time video monitoring services, in order for it to reach breakeven as soon as possible. Management's goal is that this will be achieved in 2005.

Based on our current backlog and forecasts, management believes that the Company's results in 2005 will show an improvement over those of 2004.

I would like to thank the Company's directors, officers and employees for their loyalty and dedication, as well as our shareholders for their continued support.

My thanks to all of you,

Jacob Even-Ezra
Chairman of the Board & CEO

Sustained Stability.

Sophisticated Solutions.

Superior Security.

Broad Solutions

With the vision and range of security solutions to meet escalating demands, Magal Security Systems Ltd. is a world leader in the innovation and implementation of security systems currently installed in over 75 countries worldwide. Internationally recognized for our pioneering, uncompromising performance solutions, we have captured approximately 40% of the global Perimeter Intrusion Detection market.

Proven to assure high probability of detection and protection and to withstand extreme weather conditions, Magal's security solutions meet and often even exceed customer criteria. In operational service, our products consistently prove their reliability in the most sensitive sites, such as airports, borders, nuclear facilities, military bases, communications centers, prisons and governmental facilities worldwide.

Throughout the years, Magal has recorded sustained growth. The upward spiral is reflected in revenues and an expanding base of satisfied customers. This achievement is based on the fact that Magal's solutions are globally acknowledged as cutting edge and competitive.

Magal is publicly traded on the Nasdaq and Tel Aviv Stock exchanges under the symbol MAGS and its shares are held by Mira Mag. Inc. (23%) and the public (77%).

Headquartered in Israel, Magal has subsidiaries in the US, Canada, Mexico, the UK, Germany, Romania and an office in China.

Magal has made a strong commitment to bring increasingly advanced, future-relevant solutions to global security challenges. Our vision is simple, but significant: by continuing to leverage the expertise and experience we have gained over the past 20 years, along with our ability to anticipate changing market trends, we will continue to develop and deploy breakthrough solutions that fulfill emerging security needs. At the same time, we will focus our marketing efforts on penetrating new markets.

In addition, eight percent of 2004 revenues were directed at new products development, expanding existing capabilities, customizing changes for specific projects, exploring new technological solutions and ensuring that each customer investment is a justified one.

Magal entered 2005 positioned more strongly than ever, with a growing offering of solutions that encompasses turnkey

security projects, security engineering and consulting services. Our widely deployed systems include the following:

Perimeter Intrusion Detection Systems

- Barrier sensors - a two in one security option, providing both a physical deterrent and intrusion detection sensors.
- Fence and wall-associated sensors - above ground detection sensors attached to an existing fence or wall, detecting vibrations due to climbing or cutting.
- Volumetric sensors - detect intruders moving through an invisible detection field.

Video Motion Detection System

This front-ranking system transforms the viewing-only ability of CCTV cameras into a tracking and alarm system. It analyzes movement in the field view of a static camera detecting intruders, setting off an alarm. The video motion detector indicates the cause of the alarm by marking the intruder's path and position on the video monitor.

Growing Security Solutions

Portfolio

Security Management System

Incorporating years of specialized experience and serving as a systems house, Magal provides a total turnkey solution that comprises both outdoor and indoor security systems. Our comprehensive, customized projects begin with threat analysis and include every stage of the project: choice of hardware and software through operator training and testing. All systems selected by Magal are integrated into our total Security Management System.

In addition to the above, Magal's innovative new products include:

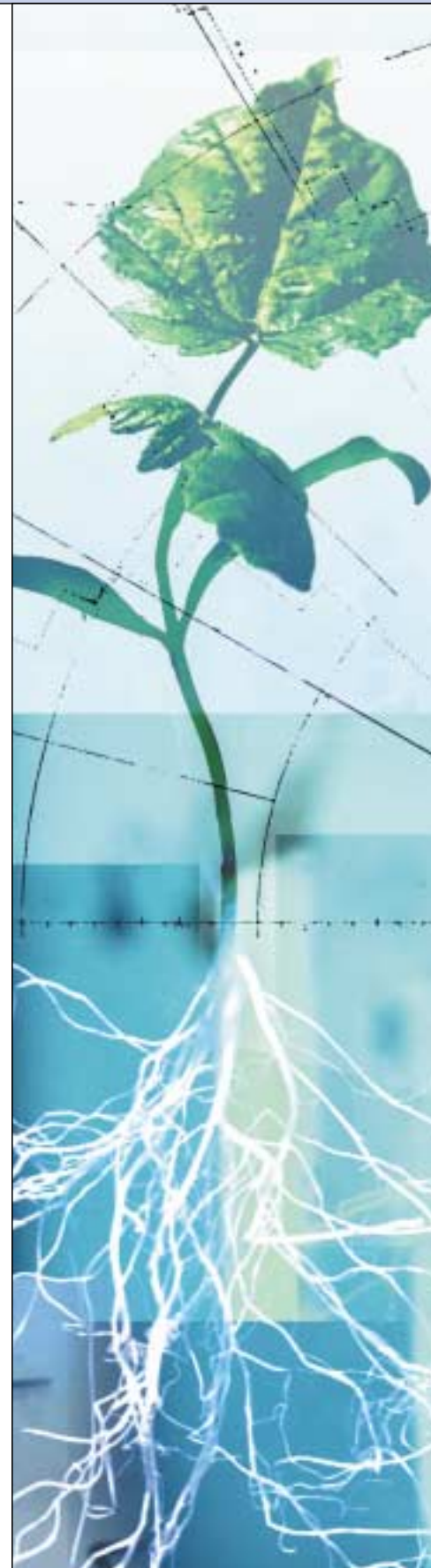
FORTIS – fully integrated command and control system, supporting real-time decision-making and wide-area command and control. FORTIS minimizes the time from intruder detection to intruder engagement. It shortens the response to real-time security events by sharing video and geographical information between the control center and security personnel in the field.

PipeGuard – The ultimate solution for securing buried assets, gas and oil pipelines and infrastructure of underground communication lines such as fiber optic cables. It utilizes a unique technology to guard buried pipelines, regardless of pipeline length. PipeGuard detects potential attacks

and alerts authorities before harm or damage occurs. It is an ideal solution for oil and gas companies, owners and operators of pipelines or communication cables and governmental agencies responsible for security and environment.

DreamBox – A state-of-the-art embedded hardware and software product, which integrates CCTV related applications, into one box, thus saving money and space and avoiding complicated cable installation and network protocols integration. DreamBox contains twelve different applications, such as Digital Video and Audio Recording, Video and Audio Matrix Switcher, Outdoor and Indoor Video Motion Detection System (VMD), Security Management System (SMS) and Transmission System.

We will continue to allocate significant personnel and financial resources to customer and market-driven R&D, nurture existing customer relationships, diversify our marketing activities, reach new areas in response to the escalating dangers that threaten global security. To speed implementation of these goals and further enhance our revenue-generating power, we plan to partner with local distributors, form alliances, make relevant acquisitions and fortifying the contracts in hand.





Directors

Jacob Even-Ezra	Chairman of the Board & CEO
Izhar Dekel	President & Director
Nathan Kirsh	Director
Jacob Nuss	Director
Jacob Perry	Director
Major. Gen. (Res.) Zeev Livne	Director
Shaul Kobrinsky	External Director
Anat Winner	External Director

Officers

Raya Asher	Vice President - Finance & Chief Financial Officer
Zvi Dank	Vice President - Research & Development
Rafi Nezer	Vice President - Africa & Latin America Marketing
Asaf Even-Ezra	Vice President - Israel & West Europe Marketing
Chaim Porat	Vice President - Far East & Australia Marketing
Dany Pizen	Vice President - East Europe & CIS Marketing
Yehezkel Farber	Vice President - Operations
Ofer Katz	Vice President - Aviation Security

Corporate Headquarters:

Magal Security Systems, Ltd.

P.O. Box 70, Industrial Zone,
56000, Yahud, Israel
Phone: 972-3-5391444
Fax: 972-3-5366245
E-Mail: magalssl@trendline.co.il
Web site: www.magal-ssl.com

Subsidiaries:

Senstar-Stellar Corporation

119 John Cavanaugh Rd.
Pri-Tech Industrial Park,
Carp, Ontario, Canada KOA 1L0
Phone: 1-613-839 5572
Fax: 1-613-839 5830
E-Mail: info@senstarstellar.com
Web site: www.senstarstellar.com

Senstar-Stellar, Inc.

43184 Osgood Rd.
Fremont, CA, 94539, USA
Phone: 1-510-440 1000
Fax: 1-510-440 8686
E-Mail: usinfo@senstarstellar.com

Senstar-Stellar, Ltd.

Orchard House
Evesham Road
Broadway
Worcestershire WR12 7HU
United Kingdom
Phone: 44-1386-834 433
Fax: 44-1386- 834 477
E-Mail: senstaruk@senstarstellar.com

Senstar GmbH

Riedheimer Str. 8
D-88677 Markdorf
Germany
Phone: 49-7544-95910
Fax: 49-7544-959129
E-Mail: info@senstar.de

Senstar-Stellar Latin-America, S.A de C.V.

Pradera No. 214
Col. Pradera
Cuernavaca, Morelos
62170 Mexico
Phone: 52-777-317 2090
Fax: 52-777-317 0364
E-mail: info@senstarstellar.com.mx

Perimeter Products, Inc.

43180 Osgood Rd.
Fremont CA, 94539
USA
Phone: 1-510-249 1450
Fax: 1-510-249 1540
E-Mail: mkt@perimeterproducts.com
Web site: www.perimeterproducts.com

Smart Interactive Systems, Inc

15-01 132nd Street
College Point, NY 11356
USA,
Phone: 001-718-661-6760
Fax: 001-718-939 3644
E-mail: info@smartinteractive.com
URL: www.smartinteractive.com

Magal Beijing Office

Room 913-914, Beiao Mansion,
No. A2 Huixindongjie,
Chaoyang District
Beijing, P.R.C Post Code: 100029
Phone: 86-10-8488 7185
Fax: 86-10-8488 7186
E-mail: magal@magal-china.com
Web site: www.magal-china.com

Auditors:

Kost, Forer, Gabbay & Kasierer
A member of Ernst & Young International
3 Aminadav St., Tel Aviv 61575, Israel

Transfer Agent & Registrar:

American Stock Transfer
and Trust Company
59 Maiden Lane, New York, NY 10007, USA

Stock Listing

The Company's common
Stock is traded in the National
Over-the Counter Market System
NASDAQ NM and on Tel Aviv Stock Exchange (TASE) - Symbol:
MAGS

Investor Relations Representative

Gelbart- Kahana Investor Relations
3 Azrieli Center
Triangle Building, 38th floor
Tel Aviv 67023 Israel
Toll Free in the USA: 1-866-7046710
Phone: 972-3-6074717
Fax: 972-3-6074711
E-mail: info@gk-biz.com



WWW.MAGAL-SSL.COM

P.O. Box 70
Industrial Zone, Yehud
56000, Israel
Phone: 972-3-5391444
Fax: 972-3-5366245
E-mail: magalssl@trendline.co.il