

## **PILAT TECHNOLOGIES INTERNATIONAL LIMITED**

**(“PTI”, the “Group” or the “Company”)**

### **Announces Results for the Nine Months and Third Quarter ended 30th September 2006**

London and Tel Aviv 27th November 2006 - Pilat Technologies International Ltd, the AIM quoted human resources management consultancy, software and services group, announces its results for the nine months and third quarter ended 30 September 2006. PTI is also quoted on the Tel Aviv Stock Exchange.

#### **SUMMARY**

- **Sales increased by 15% for the nine months and 35% for the quarter compared to the equivalent periods last year.**
- **Operating income for the nine month period up 40% to £452,000 from £323,000 in 2005.**
- **Net income for first nine months £723,000**

#### **Enquiries:**

**Pilat Technologies International Ltd  
Jonathan Berger, Chief Financial Officer**

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#### **Chairman’s Statement**

The Board of PTI is pleased to present the Company’s results for the third quarter and first nine months of 2006.

The third quarter was very positive for all three operating subsidiaries of the Group. Compared with the equivalent period last year, sales in North America rose by 82%, in Europe by 33% and in Israel by 18%.

For the nine month period under review, total sales for the Group increased by 15%, compared with the first nine months of 2005. Margins have been maintained and the resulting operating profits for the nine month period in 2006 exceeded the last full year’s operating profit.

In North America, some recent projects have included pilot work for an on-line performance management system for one of the world’s largest capital infrastructure project management companies. We believe that a successful implementation of the pilot would lead to a global roll-out covering tens of thousands of staff. Our capability in delivering high volume applications has been further demonstrated by rolling out a multi-server “web-farm” based implementation of our performance management system for more than 40,000 employees at a major US health benefits company.

In Europe, sales recovered well from the Q2 dip. We were especially pleased to deliver, for the third year in succession, a demanding 360 degree assessment project for a major international bank across three continents. Important consulting work has included a reward-related review in the public housing sector, a market which we believe will be important for us in the future. We have also reached a preliminary agreement with the *Center for Talent Retention* in the United States, to provide training, services and distribute their product line in the UK. This will provide us with a focused service line to address directly the widely recognised issue of staff turnover.

In Israel, we are very pleased to welcome Dror Sheffer as the new Managing Director of our Israeli subsidiary. Dror joined us from IBM Israel where he was Deputy CEO and Delivery Manager for Global Services. His extensive technical and organisational change experience are a welcome addition to our management strength. The previous Managing Director of Pilat Israel, Eli Fishof, will continue to serve the Company in a senior consulting role. The performance of Pilat Israel has improved markedly over the last few years and the board would like to thank Eli for his outstanding contribution. The previously announced sale of our Project Management business and the transfer of employees has progressed to timetable and we are recognising £267,000 of pre-tax profits as a result of this transaction. This transaction completes our disposal of our non-core business entities providing greater focus on our principal HR related activities.

Since the low point in our share price a little over three years ago, Pilat has recovered profitability and now has a firm foundation for future growth. Non-core operating businesses have been sold. All the remaining business are focused on the application of the scientific understanding of behaviour to driving human performance in organisations, through improved staff selection, performance management and employee development. Pilat is well positioned in the emerging Human Capital Management services market where many analysts are predicting strong growth over the coming years.

### **Revenues and profitability**

Overall sales in Q3, 2006 were £2,296,000 reflecting a 35% increase in sales of the equivalent quarter of 2005 (£1,702,000). All three operating subsidiaries showed strong increases in sales during the quarter.

In Europe, sales rose from £646,000 during Q3 2005 to £856,000 in Q3 2006, an increase of 33%. Sales in North America continued to be buoyant and increased by 82% to £638,000 (£350,000 in Q3 2005). In Israel, despite hostilities in the region, sales increased by 18% to £900,000 compared to the equivalent quarter in 2005 of £760,000.

Sales in the first 9 months of 2006 were £6,323,000, a 15% increase over the equivalent period of 2005 (£5,494,000).

Gross profit margins during the period remained stable.

Sales and marketing costs of the Company increased during the quarter by 15% to £203,000 (from £177,000 in 2005). During the first 9 months, sales and marketing expenditure has increased by 32% to £655,000 (2005- £498,000). This reflects the management policy of increasing sales efforts in Europe and North America.

Research & development spending remained stable during the quarter at £67,000.

General and administrative expenses increased by 4% during the first 9 months of 2006 and stood at £1,221,000 (2005- £1,172,000).

Operating income for the nine months rose 40% to £452,000 (2005- £323,000) and for the quarter by 120% to £312,000 (2005- £142,000).

The sale of our Project Management business in Israel afforded a gain of £267,000 which resulted in net income before tax for the nine months of £736,000 (2005- £348,000) and for the quarter of £578,000 (2005- £154,000).

Due to the profitability of all of our operating subsidiaries, the majority of tax losses have been utilised and the taxation expenditure for the first 9 months was £210,000 (2005- negative £7,000). For the third quarter, the taxation was £165,000 compared with a negative expense of £7,000 for the equivalent quarter of 2005.

Net income from continuing operations for the first 9 months stood at £526,000, an increase of 48% over the equivalent period of 2005- £355,000. For the quarter, the profit from continuing operations was £413,000, an increase of 157% over the equivalent period of 2005- £161,000.

Net income for the first 9 months was £723,000 (2005- £301,000, a 140% increase) and for the quarter £413,000 (2005- £121,000, a 241% increase).

### **Balance Sheet**

The Company's current assets at 30 September 2006 were £4,532,000, which represents approximately 92% of assets. Of these assets, £956,000 is cash and £546,000 short term investments with maturities above three months.

Trade receivables increased to £2,802,000 compared with £2,132,000 at 30 September 2005. This increase is due to strong sales during the later part of the quarter, which still awaited collection on 30 September 2006.

Current liabilities increased over the nine months to £2,041,000 (31 December 2005- £1,701,000) mainly due to increases in deferred income. Long-term liabilities stood at £29,000.

The Group's current ratio is a healthy 2.22.

Shareholders' equity increased to £2,782,000.

### **Liquidity**

The Group generated £215,000 during the quarter from operating activities and £318,000 for the first 9 months of 2006.

During the quarter, investment activities from continuing activities provided £31,000 and in the first nine months of 2006 used £195,000 of which £144,000 were transfers of cash balances to longer maturity bank deposits.

Cash balances and short term maturities stood at £1,502,000 at 30 September 2006 as opposed to £1,297,000 at 30 June 2006, £1,342,000 at 31 December 2005 and £1,080,000 at 30 September 2005.

David Sapiro, CEO  
 Lenard Israelstam, Chairman  
 Jonathan Berger, CFO

**CONSOLIDATED BALANCE SHEETS**  
**British pounds in thousands**

	<b>September 30, 2006 Unaudited</b>	<b>2005 Unaudited</b>	<b>December 31, 2005 Audited</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	956	777	938
Short term investments	546	303	404
Trade receivables	2,802	2,132	2,046
Other accounts receivable	228	231	270
	4,532	3,443	3,658
<b>LONG-TERM LOANS AND RECEIVABLES:</b>			
Long-term loans and receivables	25	22	23
Severance pay, net	-	-	16
	25	22	39
<b>FIXED ASSETS, NET</b>			
Cost	1,370	1,374	1,370
Less - accumulated depreciation	989	934	941
	381	440	429
<b>DEFERRED TAXES</b>	13	38	63
<b>ASSETS RELATED TO DISCONTINUED OPERATIONS*</b>	-	1,961	2,948
	4,951	5,904	7,137
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term bank credit	22	35	29
Trade payables	340	314	321
Other accounts payable	1,679	1,129	1,351
	2,041	1,478	1,701

LONG-TERM LIABILITIES:

Liabilities to banks	16	18	17
Accrued severance pay, net	13	53	-
	29	71	17
LIABILITIES RELATED TO DISCONTINUED OPERATIONS*	99	2,277	3,306
SHAREHOLDERS' EQUITY	2,782	2,078	2,113
	4,951	5,904	7,137

\* Reclassified - see note 3

**CONSOLIDATED STATEMENTS OF INCOME**

British pounds in thousands (except per share amounts)

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2006 Unaudited	2005 Unaudited	2006 Unaudited	2005 Unaudited	2005 Audited
Revenues	6,323	5,494	2,296	1,702	7,460
Cost of revenues	3,779	3,297	1,310	1,021	4,624
Gross profit	2,544	2,197	986	681	2,836
Research and development costs	216	204	67	67	272
Selling and marketing expenses	655	498	203	177	664
General and administrative expenses	1,221	1,172	404	295	1,490
	2,092	1,874	674	539	2,426
Operating income	452	323	312	142	410
Financial income (expenses), net	15	18	(3)	3	18
Other incomes, net	269	7	269	9	-
Net income before taxes on income	736	348	578	154	428
Taxes on income	(210)	7	(165)	7	(20)
Net income from continuing operations	526	355	413	161	408
Profit (loss) from discontinued operations, net*	197	(54)	-	(40)	(91)
Net income	723	301	413	121	317
Net earnings (loss) per share (in British pounds)*					
from continuing operations	0.0	0.014	0.016	0.006	0.016
from discontinued operations, net*	0.0	(0.002)	-	(0.001)	(0.004)
Net earnings per share	0.0	0.012	0.016	0.005	0.012

\*Reclassified - see note 3.

\*\*Restated - see note 2(b)(2)

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**British pounds in thousands**

	Share capital	Additional paid-in capital	Cumulative foreign currency translation adjustments	Accumulated deficit	Less - shares held by subsidiaries	Total
Balance at January 1, 2006	48	7,065	(137)	(4,767)	(96)	2,113
Issued of shares from exercised options	1	6	-	-	-	7
Net income	-	-	-	723	-	723
Cumulative foreign currency translation adjustments	-	-	(61)	-	-	(61)
Balance at September 30, 2006 (unaudited)	49	7,071	(198)	(4,044)	(96)	2,782
Balance at January 1, 2005 (audited)	48	7,065	(221)	(5,084)	(96)	1,712
Net income	-	-	-	301	-	301
Cumulative foreign currency translation adjustments	-	-	65	-	-	65
Balance at September 30, 2005 (unaudited)	48	7,065	(156)	(4,783)	(96)	2,078
Balance at July 1, 2006 (unaudited)	49	7,071	(204)	(4,457)	(96)	2,363
Net income	-	-	-	413	-	413
Cumulative foreign currency translation adjustments	-	-	6	-	-	6
Balance at September 30, 2006 (unaudited)	49	7,071	(198)	(4,044)	(96)	2,782
Balance at July 1, 2005 (unaudited)	48	7,065	(189)	(4,904)	(96)	1,924
Net income	-	-	-	121	-	121
Cumulative foreign currency translation adjustments	-	-	33	-	-	33
Balance at September 30, 2005 (unaudited)	48	7,065	(156)	(4,783)	(96)	2,078
Balance at January 1, 2005 (audited)	48	7,065	(221)	(5,084)	(96)	1,712
Net income	-	-	-	317	-	317
Cumulative foreign currency translation adjustments	-	-	84	-	-	84
Balance at December 31, 2005 (audited)	48	7,065	(137)	(4,767)	(96)	2,113

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**British pounds in thousands**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2006	2005	2006	2005	2005
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
<u>Cash flows from operating activities:</u>					
Net income	723	301	413	121	317
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	(405)	(44)	(198)	(86)	183

Net cash provided by continuing operating activities	318	257	215	35	500
Net cash provided by (used in) discontinued operating activities*	-	59	-	25	(258)
Net cash provided by operating activities	318	316	215	60	242
<b>Cash flows from investing activities:</b>					
Purchase of fixed assets	(58)	(135)	(13)	(51)	(168)
Proceeds from sale of fixed assets	7	14	7	6	33
Short and long term investments, net	(144)	106	37	92	17
Net cash provided by (used in) continuing investing activities	(195)	(15)	31	47	(118)
Net cash provided by (used in) discontinued investing activities*	(58)	(74)	-	1	(3)
Net cash provided by (used in) investing activities	(253)	(89)	31	48	(121)
<b>Cash flows from financing activities:</b>					
Issued of shares from exercised options	7	-	-	-	-
Repayment of long-term loans from banks	(24)	(27)	(4)	(8)	(37)
Short-term bank credit, net	-	(127)	-	8	(126)
Net cash used in continuing financing activities	(17)	(154)	(4)	-	(163)
Net cash provided by (used in) discontinued financing activities*	-	(108)	-	(139)	137
Net cash provided by used in financing activities	(17)	(262)	(4)	(139)	(26)
Effect of exchange rate changes on cash and cash equivalents	(30)	16	(5)	2	47
Increase (decrease) in cash and cash equivalents	18	(19)	237	(29)	142
Cash and cash equivalents at the beginning of the period	938	796	719	806	796
Cash and cash equivalents at the end of the period	956	777	956	777	938

\*Reclassified - see note 3

## CONSOLIDATED STATEMENTS OF CASH FLOWS

British pounds in thousands

Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
2006	2005	2006	2005	2005
Unaudited	Unaudited	Unaudited	Unaudited	Audited

- (a) Adjustments to reconcile net income (loss) to net cash provided by (used in) operating income:

Income and expenses not involving cash flows:

Loss (profit) from discontinued operations, net*	(197)	54	-	40	91
Loss (gain) from short – term investments, net	-	6	-	6	-
Depreciation and amortization	107	105	38	32	148
Deferred taxes, net	43	1	39	(5)	(19)
Increase (decrease) in accrued severance pay, net	28	9	10	-	(60)
Capital loss (gain) from sale of fixed assets and other assets	(268)	3	(268)	-	(4)
Erosion of long-term loans	-	-	-	-	11

Changes in operating assets and liability items:

Decrease (increase) in trade receivables, other accounts receivable and long-term loans and receivables	(482)	264	(306)	35	364
Increase (decrease) in trade payables and other accounts payable	364	(486)	289	(194)	(338)
	(405)	(44)	(198)	(86)	183

(b) Non cash investing and financing activities

Property and equipment acquired Under capital leases	18	10	12	10	20
Sale of fixed assets	3	-	3	-	-
Sale of other assets	267	-	267	-	-

\*Reclassified - see note 3

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1:- GENERAL

These financial statements have been prepared in a condensed format as of September 30, 2006, and for the nine months then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of December 31, 2005 and for the year then ended.

### NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. The interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in Accounting Standard No. 14 of the Israel Accounting Standards Board and in accordance with the Chapter D of the Securities Regulations (periodic and Immediate reports), 1970.

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

- b. Initial adoption of new Accounting Standards:

1. Initial adoption of Accounting Standard No. 20 (Revised) regarding the accounting for goodwill and intangible assets upon acquisition of investee:

On January 1, 2006, the Company adopted the provisions of Accounting Standard No. 20 (Revised), "Accounting for Goodwill and Intangible Assets upon Acquisition of Investee" ("the Standard"), of the Israel Accounting Standards Board. The Standard prescribes the accounting treatment of goodwill and intangible assets upon the acquisition of a subsidiary and an investee which is not a subsidiary, including a company under joint control.

The initial adoption of the Standard had no effect on the interim financial statements.

2. Initial adoption of Accounting Standard No. 21 regarding earnings per share:

On January 1, 2006 ("the effective date"), the Company adopted the provisions of Accounting Standard No. 21, "Earnings per Share" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes the principles for the computation and presentation of earnings (loss) per share in the financial statements and supersedes Opinion No. 55 of the Institute of Certified Public Accountants in Israel.

According to the Standard, earnings per share are computed based on the number of ordinary shares (and not per NIS 1 par value of the shares as computed until the effective date). Basic earnings per share include only shares which are outstanding during the period whereas convertible securities (such as convertible debentures and options) are only included in the computation of diluted earnings per share, in contrast to the principles applied until the effective date according to which in cases where a convertible security is likely to be converted, it is included in the computation of basic earnings per share. In addition, convertible securities which are converted during the period, are included in diluted earnings per share up to the date of conversion and are included in basic earnings per share from that date. Pursuant to the Standard, options are included in diluted earnings when their exercise results in the issuance of shares for a consideration which is less than the market price of the shares. The amount of dilution is the market price of the shares minus the amount that would have been received as a result of the conversion of the options into shares. This is in contrast to the method of computation prescribed by Opinion No. 55, which also included adjustments to earnings.

The investor's share of earnings of an investee is included based on the earnings per share of the investee multiplied by the number of shares held by the investor.

As a result of the initial adoption of the provisions of the Standard, the comparative data of earnings per share relating to previous periods have been restated. These comparative data, prior to restatement, were 1.16, 0.47 and 1.22 for basic earnings per share (per NIS 1 par value) for the nine months and

three months ended September 30, 2005, and for the year ended December 31, 2005, respectively.

3. Initial adoption of Accounting Standard No. 22 regarding financial instruments: disclosure and presentation:

On January 1, 2006 ("the effective date"), the Company adopted the provisions of Accounting Standard No. 22, "Financial Instruments: Disclosure and Presentation" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes principles for the presentation and disclosure of financial instruments and supersedes Opinions No. 48 and 53 of the Institute of Certified Public Accountants in Israel.

The initial adoption of the Standard had no material effect on the interim financial statements.

4. Initial adoption of Accounting Standard No. 24 regarding share-based payment:

On January 1, 2006, the Company adopted the provisions of Accounting Standard No. 24, "Share-Based Payment" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes rules for measurement and other requirements for three types of share-based transactions:

- a) Equity-settled share-based payment transactions;
- b) Cash-settled share-based payment transactions;
- c) Share-based payment transactions which allow the entity or counterparty to choose the manner of settlement.

The initial adoption of the Standard had no material effect on the interim financial statements.

5. Initial adoption of Accounting Standard No. 25 regarding revenues:

On January 1, 2006, the Company adopted the provisions of Accounting Standard No. 25, "Revenues" ("the Standard") of the Israel Accounting Standards Board. The Standard deals with the recognition of revenue from three types of transactions: sale of goods, rendering of services and revenue from interest, royalties and dividends and prescribes the required accounting treatment (principles of recognition, measurement, presentation and disclosure) regarding these three types of transactions.

The initial adoption of the Standard had no material effect on the interim financial statements.

- c. Disclosure of the effect of a new Accounting Standard in the period prior to its adoption:

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

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

International Financial Reporting Standards comprise standards and interpretations adopted by the International Accounting Standards Board, and include:

- a) International Financial Reporting Standards (IFRS).
- b) International Accounting Standards (IAS).
- c) Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by its predecessor, the Standing Interpretations Committee (SIC).

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

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

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

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

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

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

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

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

(2) Accounting Standard No. 26 - Inventories:

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

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

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

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

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

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

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

The Company believes that the effect of the new Standard on its financial position, results of operations and cash flows is not expected to be material.

(3) Accounting Standard No. 27 - Fixed Assets:

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

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

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

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

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

The transitional provisions of the Standard require retrospective adoption, including the restatement of comparative data, except in the following cases:

- a) A company that elects on the effective date to implement the reevaluation method for a group of fixed assets will carry the difference between the revalued amount in the books and its cost at the effective date to capital reserve in shareholders' equity at the same date.
- b) A company that has not included the initial evaluation of costs of the asset's liquidation and evacuation and restoration of the site on which the asset is located in cost of fixed assets will be required to:
  - 1) Measure the liability at the effective date, in accordance with generally accepted accounting principles;
  - 2) Calculate the amount that would have been included in the cost of the relevant asset at the date on which the liability was first incurred by the capitalization of the amount of said liability at the date of its initial incurrence through the company's best estimate of the historical capitalization rates corresponding to the relevant risk in respect of said liability during the elapsed period;
  - 3) Calculate the accumulated depreciation in respect of the capitalized liability on the effective date based on the asset's useful life at that time;
  - 4) Carry the difference between the amount recorded in respect of the asset, pursuant to items 2) and 3) above, and the liability amount, pursuant to item 1) above, to retained earnings.

The Company is evaluating the effect of the adoption of the Standard on its financial statements, including the possible effect of the transition to the reevaluation method, but is presently unable to estimate such effect.

- d. Following are data regarding the exchange rate of the British pound in relation to the NIS:

<u>As of</u>	<u>Exchange rate of one British pound NIS</u>
September 30, 2006	8.043
September 30, 2005	8.0858
December 31, 2005	7.9406
<u>Change during the period</u>	<u>%</u>
September 2006 (nine months)	1.3

September 2005 (nine months)	(2.7)
September 2006 (three months)	(1.1)
September 2005 (three months)	(0.85)
December 2005 (12 months)	(4.4)

**NOTE 3:- MATERIAL EVENTS THROUGHOUT THE PERIOD**

1. In January 2006, the Company sold its holdings in Renaissance Electronics Ltd., which was, in previous reporting periods, the sector for distributing of software.

After disposing the holdings, the Company ceased its operations in distribution of software products. As a result of the sale of Renaissance's operations, its assets and liabilities are presented as discontinued operations.

The Company recognized capital gains of £197,000 from the sale of Renaissance during the period, which is presented as gains from discontinued operations, net.

Contingent liabilities to Renaissance's buyers as at September 30, 2006 are presented in the framework of liabilities relating to discontinued operations. Renaissance's operations, assets and liabilities for previous periods are presented in the framework of discontinued operations.

2. During September 2006, Pilat Israel sold the goodwill and transferred the employees of its Project Management Consultancy unit to Tefen Ltd., a leading Israeli engineering consultancy firm for a consideration of £267,000.