

PILAT TECHNOLOGIES INTERNATIONAL LTD
("Pilat", "PTI", the "Group" or the "Company")

Announces Preliminary Results for the year to 31 December 2006

London and Tel Aviv, 30th March 2007 – Pilat Technologies International Ltd, the AIM quoted integrated HR consulting, IT solutions and services group announces its results for the year ended 31 December 2006.

HIGHLIGHTS

- Operating income up 33% to £547,000 (2005: £410,000)
- Cash generation from operations up fourfold to £1,073,000 (2005: £242,000)
- Fully diluted earnings per share of 3.5p (2005: 1.2p)
- Net income up 190% to £920,000 (2005: £317,000)

Through three main subsidiaries, Pilat Europe, Pilat North America and Pilat Israel, the Group provides consultancy, advanced web based software applications and data processing and analysis services in the fast growing field of *Human Capital Management*.

Pilat has a wide and varied client base including many major global corporations and international public sector bodies. The Company works across all sectors with organisations employing from a few hundred to hundreds of thousands of staff. Pilat has extensive industry experience in Financial Services, Energy and Telecommunications and sector specific offerings in Healthcare, Public Housing, Local Government and Education.

The shares of PTI are quoted on both AIM and the Tel Aviv Stock Exchange.

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Chairman's Statement

Summary

2006 was a very satisfying year for Pilat. Operating income increased by 33% over 2005 to £547,000. After the effect of profits on the sales of Renaissance Electronics Ltd (REL) in January and the Project Management business in Israel, net income for the year was £920,000. Following a very good performance from the core of the Group, net cash generated from operating activities quadrupled to £1,073,000.

Our operations are now almost exclusively focused on the Human Resources consulting and services market and divided into the North American and European companies, jointly trading as Pilat HR Solutions (HR Solutions) and our activities in Israel.

HR Solutions had a good year with profits up over 70% in North America and up nearly 50% in Europe. This was on the basis of strong sales growth in North America and many of our resources in Europe were engaged on North American projects during the year. We have now resourced up the North American team and expect to see most work in North America resourced locally in 2007, with the European office concentrating on improving European sales performance. Overall sales in HR Solutions were up 23%.

Continuing our policy of developing clear offerings for key vertical markets, we were very pleased that our Succession Pulse™ software has been endorsed by the American Hospital Association (AHA). After an exhaustive process, AHA

selected Succession Pulse™ for exclusive endorsement as the talent management solution for AHA member hospitals and health care organisations across the United States. Pilat is currently working closely with AHA Solutions to develop a pre-configured, health care-specific version of Succession Pulse™ that will meet most health care organisations' requirements. This system will also be available outside North America.

In Europe, we have recently launched the Web based version of our successful GAUGE Job Evaluation software with an agency of the Scottish Government as lead client. This system helps employers determine the relative "size" of jobs and is an important tool both for the design of job grading systems and in the determination of "equal worth" associated with potential discrimination issues. Moving Job Evaluation services to the web based framework alongside our 360 degree assessment, Performance Management and Talent Management systems allows Pilat to offer a wider range of services on a subscription or pay-per-use model. Web GAUGE will be launched in the North American market shortly and we will be adding additional service lines in the coming quarters.

Retention of employees is of critical interest to many of our clients and a new relationship with the Colorado-based, Center for Talent Retention (CTR), gives Pilat exclusive rights to distribute the CTR products and seminars in the UK. The CTR portfolio gives Pilat clients access to set of initiative tools explicitly directed at reducing staff turnover and increasing retention in organisations.

In Israel, reported sales dropped by 6% in sterling terms. However sales in 2005 included the full year of activities in our Project Management business, which, as previously reported was sold at the end of the third quarter 2006. If sales from Project Management are removed from both years, sales in local currency remained stable.

Recent project wins have included a major international 360 degree assessment project for one of Israel's leading technology companies and a contract with the Education Ministry to carry out expert statistical analysis on school examination results over a three year period. Both these contracts reflect our ambition to continue to develop Pilat Israel as the leading specialised HR consulting and services provider in the Israeli market. External verification of our position was verified in a recent brand survey by Israel's leading media group, Yediot Aharonot. It revealed that Pilat is considered Israel's leading assessment and occupational consultancy company, and is also considered the leading executive search and placement company.

Overall, the Israeli economy remains strong and the core recruitment and assessment businesses are performing satisfactorily.

Looking to the future, our niche area in Human Capital Management continues to attract attention with many analysts predicting strong compound growth over the foreseeable future. This is underpinned by demographic changes in North America and Europe as the population ages. In the USA, employee retirements are now creating twice as many job openings as those generated by the economic growth (Source: Americas Growth Capital LLC.: Industry Note 19 December 2006). As talent becomes more scarce, organisations will need to pay more attention to attracting the best and getting the best out of them – the core expertise of Pilat.

Revenues and profitability

The Group's revenues increased by 9% from £7,460,000 in 2005 to £8,162,000 in 2006.

As in 2005, the 2006 revenues originated from a large number of client organisations in Europe, Israel and North America. There was no substantial dependency on a single client.

The increase in revenue was accompanied by an increase in cost of sales however gross margins increased slightly to 40% (2005: 38%).

General and administrative expenses have increased by 4% from £1,490,000 in 2005 to £1,553,000, due to increased activity in the Group.

Selling and marketing expenses increased by £204,000 (31%) from £664,000 in 2005 to £868,000 in 2006. This increase is in line with expectations and was mainly due to an increase in sales expenditure and staff in Europe the US.

R&D expenses increased by 4% from £272,000 to £283,000 in 2006. In 2006 the Group's financial income was £13,000 compared with £18,000 in 2005. This income consists of net £30,000 (2005: £19,000) and translation of foreign exchange balances expenses, net, relative the UK currency, of £17,000 (2005: £1,000).

Overall, the Group's operating income rose 33% to £547,000 compared with £410,000 in 2005.

The Group's net income from continuing operations was £651,000 compared with £408,000 in 2005 (an increase of 60%). The operating income in 2006 includes a one off gain of £267,000 for the sale of the Project Management unit of Pilat Israel.

The gain from discontinued activities was £269,000 in 2006 compared with a loss of £91,000 in 2005, giving net income of £920,000 in 2006, an increase of 190% over the net income in 2005 of £317,000.

Balance Sheet

The Group's current assets as at 31 December 2006 were £4,224,000 (2005: £3,658,000) representing 92% of total assets (2005: 51%). Cash and short term deposits were £2,188,000 compared with £1,342,000 at 31 December 2005.

Trade accounts receivable at year end reduced to £1,828,000, a decrease of £218,000 over the previous year end. This was mainly due to improved collection from customers.

Current liabilities as at 31 December 2006 were £1,618,000 (2005: £1,701,000).

Long term liabilities were £27,000 at 31 December 2006, compared to £17,000 at the end of 2005.

Shareholders' equity increased by £820,000 to £2,933,000 for the period, reflecting the profit of £920,000, a conversion of options by employees (£14,000) and cumulative foreign exchange translation loss of £114,000.

Liquidity

The Group had a positive cash flow from continuing operations of £1,075,000, resulting from the operating profit after adjustments.

The total increase in cash and equivalents during 2006 was £1,106,000.

PTI enjoys a healthy current ratio of 2.61 (2005: 2.15).

Leonard Israelstam, Chairman
David Sapiro, Chief Executive Officer
Jonathan Berger, Chief Financial Officer

CONSOLIDATED BALANCE SHEETS

British pounds in thousands

	December 31		
	Note	2006	2005
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		2,044	938
Short term investments		144	404
Trade receivables		1,828	2,046
Other accounts receivable		208	270
		4,224	3,658
LONG-TERM LOANS AND RECEIVABLES:			
Long-term loans and receivables		14	23
Severance pay, net		-	16
		14	39
FIXED ASSETS, NET			
Cost		1,324	1,370
Less - accumulated depreciation		974	941
		350	429
DEFERRED TAXES		2	63
ASSETS RELATED TO DISCONTINUED OPERATIONS	1	-	2,948
		4,590	7,137

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES			
Current maturities of long-term bank loans		18	29
Trade payable		334	321
Other accounts payable		1,266	1,351
		1,618	1,701
LONG-TERM LIABILITIES:			
Liabilities to banks		15	17
Accrued severance pay, net		12	-
		27	17
LIABILITIES RELATED TO DISCONTINUED OPERATIONS	1	12	3,306
CONTINGENT LIABILITIES AND COMMITMENTS			
SHAREHOLDERS' EQUITY		2,933	2,113
		4,590	7,137

CONSOLIDATED STATEMENTS OF OPERATIONS**British pounds in thousands (Except for net earnings (loss) per share amounts)**

		Year ended December 31,		
	Note	2006	2005	2004
Revenues		8,162	7,460	7,283
Cost of revenues		4,911	4,624	4,426
Gross profit		3,251	2,836	2,857
Research and development costs		283	272	236
Selling and marketing expenses		868	664	520
General and administrative expenses		1,553	1,490	1,551
Operating income		547	410	550
Financial income, net		13	18	3
Other income (expenses), net		271	-	(11)
Net income before taxes on income		831	428	542
Taxes on income		180	20	135
Net income from continuing operations		651	408	407
Income (loss) from discontinued operations, net (1)		269	(91)	(122)
Net income		920	317	285
<u>Net earnings (loss) per share (in British pence):</u>	2			
<u>Basic earnings (loss)</u>				
Net earnings from continuing operations		2.50	1.57 ⁽¹⁾	1.57 ⁽¹⁾
Earnings (loss) from discontinued operations, net		1.04	(0.35) ⁽¹⁾	(0.47) ⁽¹⁾
Net income		3.54	1.22 ⁽¹⁾	1.10 ⁽¹⁾
<u>Diluted earnings (Loss)</u>				
Net earnings from continuing operations		2.47	1.55	1.57
Loss from discontinues operations, net		1.02	(0.35)	(0.47)
Net Income		3.49	1.20	1.10

(1) Restated

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

British pounds in thousands

	Share capital	Additional paid-in capital	Receivables for issuance of shares	Cumulative foreign currency translation adjustments	Accumulated deficit	Less - shares held by subsidiaries	Total
Balance at January 1, 2004	48	7,065	-	(171)	(5,369)	(96)	1,477
Net income	-	-	-	-	285	-	285
Cumulative foreign currency translation adjustments	-	-	-	(50)	-	-	(50)
Balance at December 31, 2004	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	48	7,065	-	(137)	(4,767)	(96)	2,113
Net income	-	-	-	-	920	-	920
Options exercise into shares	1	13	-	-	-	-	14
Cumulative foreign currency translation adjustments	-	-	-	(114)	-	-	(114)
Balance at December 31, 2006	49	7,078	-	(251)	(3,847)	(96)	2,933

CONSOLIDATED STATEMENTS OF CASH FLOWS

British pounds in thousands

	Year ended December 31		
	2006	2005	2004
Cash flows from operating activities:			
Net income	920	317	285
Adjustments to reconcile net income to net cash provided by (used in) operating income (a)	155	183	(3)
Net cash provided by continuing operating activities	1,075	500	282
Net cash used in discontinued operating activities	-	(258)	(14)
Net cash provided by operating activities	1,075	242	268
Cash flows from investing activities:			
Purchase of fixed assets	(84)	(168)	(78)
Proceeds from sale of fixed assets	26	33	22
Short-term investments, net	242	17	(566)

Long-term loans and receivables	-	-	40
Net cash used in continuing investing activities	184	(118)	(582)
Net cash used in discontinued investing activities	(64)	(3)	(19)
Net cash used in investing activities	120	(121)	(601)
Cash flows from financing activities:			
Receipt of long-term loans from banks	-	-	40
Repayment of long-term loans from banks	(29)	(37)	(27)
Short-term bank credit, net	-	(126)	(24)
Shares issue	14	-	-
Net cash used in continuing financing activities	(15)	(163)	(11)
Net cash provided by discontinued financing activities	-	137	210
Net cash provided by (used in) financing activities	(15)	(26)	199
Effect of exchange rate changes on cash and cash equivalents	(74)	47	(49)
Increase (decrease) in cash and cash equivalents	1106	142	(183)
Cash and cash equivalents at the beginning of the year	938	796	979
Cash and cash equivalents at the end of the year	2,044	938	796

	Year ended December 31,		
	2006	2005	2004
(a) <u>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating income:</u>			
Income and expenses not involving cash flows:			
Loss (income) from discontinued operations, net	(269)	91	122
Depreciation and amortization	146	148	164
Deferred taxes, net	53	(19)	(57)
Increase (decrease) in accrued severance pay, net	28	(60)	(24)
Capital gain from sale of fixed assets	(4)	(4)	(5)
Erosion of long-term loans	-	1	7
Changes in operating assets and liability items:			
Decrease (increase) in trade receivables, other accounts receivable and long-term loans and receivables	158	364	(856)
Increase (decrease) in trade payables and other accounts payable	43	(338)	646
	155	183	(3)
(b) Noncash investing and financing activities			
Property and equipment acquired Under capital leases	21	20	5

NOTES

- 1:** On January 17, 2006, the Company sold for the exchange of £24,000 its holdings in Renaissance Electronics Ltd., which was described in previous reporting periods, as the segment – “distribution of software product in data security”.

After selling the holdings, the Company ceased its operations in “distribution of software products in data security”. The Company recognized £269 thousands as a capital gain which is presented as income from discontinued operations, net.

The operations presented as discontinued operations according to accounting standard no.8 of the Israel accounting standards Board as to accounting policy see 2 q.

Capital gain detailing:

	British pounds in thousands
Sale proceeds	24
Liabilities from discontinued operations	3,306
Assets from discontinued operations	(2,948)
Expenses	(113)
Capital Gain	269

2 NET EARNINGS (LOSS) PER SHARE

Below is the share amount and the net earning (loss) data for the computation of net earnings (loss) per share.

Basic earnings (loss)

		Year ended December 31,		
		2006	2005	2004
a.	Number of shares used in the computation of earnings (loss) per share (in thousands):			
	Weighted average of nominal outstanding share capital	26,354	26,279	26,279
	Treasury shares	(386)	(386)	(386)
	Total	<u>25,968</u>	<u>25,893</u>	<u>25,893</u>
b.	Net income (loss) used in the computation of net income (loss) per share:			
	Net income for the year, according to the statement of operations from continuing operations	651	408	407
	Income (loss) according to statement of operations from discontinued operations	269	(91)	(122)
	Net income	<u>920</u>	<u>317</u>	<u>285</u>

Diluted earnings (loss)

		Year ended December 31,		
		2006	2005	2004
a.	Number of shares used in the computation of earnings (loss) per share (in thousands):			
	Weighted average of nominal outstanding share capital	26,785	26,654	26,279
	Treasury shares	(386)	(386)	(386)
	Total	<u>26,399</u>	<u>26,268</u>	<u>25,893</u>
b.	Net income (loss) used in the computation of net income (loss) per share:			

Net income for the year, according to the statement of operations from continuing operations	651	408	407
Income (loss) according to statement of operations from discontinued operations	<u>269</u>	<u>(91)</u>	<u>(122)</u>
Net income	<u><u>920</u></u>	<u><u>317</u></u>	<u><u>285</u></u>