

PILAT TECHNOLOGIES INTERNATIONAL LTD
(“PTI”, the “Group” or the “Company”)

Results for First Quarter ended 31 March 2007

London and Tel Aviv 18 May 2007 - Pilat Technologies International Ltd, the AIM-quoted human resources management consultancy, software and services group, announces its results for the quarter ended 31 March 2007 (“Q1”). PTI is also quoted on the Tel Aviv Stock Exchange.

SUMMARY

- Q1 sales reduced 11% to £1,826,000 (2006: £2,042,000)
- Europe external sales up 9% compared with Q1 2006.
- Israel like-for-like sales up 12% compared with Q1 2006.
- North America sales down 26% compared with Q1 2006.
- Net loss on continuing operations of £74,000 (Q1 2006: profit of £110,000).

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.

ENQUIRIES

Pilat Technologies International Ltd
Jonathan Berger, Chief Financial Officer

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CHAIRMAN'S STATEMENT

The Board of PTI presents the Company's results for the first quarter of 2007.

The financial results of the Company as a whole were disappointing, the reduction due to the drop in sales in North America compared with last year. Q1 2007 has delivered good progress for all our other activities, new products have come on stream and we are moving forward in our plans to increase capacity and improve our sales and marketing capabilities.

In Europe, sales to third parties rose by 9% compared with the equivalent quarter last year. Total sales, including inter-company sales, were flat and profits fell by £15,000 to £98,000 on slightly increased costs.

In Israel, profits more than doubled compared with Q1 2006 and sales increased 12% on a like-for-like basis, excluding the effect of the disposal of the Project Management activities in September 2006.

In North America, sales from 360 degree assessments and related activities were up 3.5% and Maintenance and Service Fees were also up 4% (in dollar terms). We continue to keep and attract varied and prestigious clients in the area and completed projects for a leading aerospace organisation, an international financial institution, a major investment bank and a leading pharmaceutical company amongst many others during this quarter. However, US sales overall were \$200,000 lower or 17.5% in dollar terms.

The net effect of this was to reduce Group overall sales in sterling by 11% compared with the equivalent quarter in 2006.

We are continuing to develop and extend the range of products and services that we deliver on a SaaS (Software as a Service) model for more predictable monthly fees, rather than We plan an increase in both our R&D and sales and marketing activities in coming quarters. A new outsourced development team in India is being set up in order to provide a wider web based product range availability on-line in Q3 and Q4 this year.

In Israel we were pleased to win our first projects introducing our latest HR PULSE software into the local market with a major bank. We have recently appointed a director of Sales and Marketing and are looking forward to building on the market reputation reflected in our awards of "Leading Assessment and Occupational Consulting Company" and "Leading Executive Search and Placement Company" reported in March.

In Europe, we were especially pleased with the number of new clients added in Q1 including a major international airline, a central bank and a major national oil corporation. We are continuing to increase our geographic footprint with new clients in France, Norway, Switzerland and Singapore.

Revenues and profitability

Overall sales in Q1 2007 were £1,826,000, a decrease of 11% over the sales in the same quarter in 2006 (£2,042,000). The reduction in sales was due to operations in North America where sales fell by 17.5% in dollar terms (26% in sterling terms) and the effect of the September 2006 sale of our Project Management activities in Israel.

The gross margin for the quarter stood at 35%, compared to a gross margin of 40% in 2006. This is due to a reduction in sales during the quarter given that the costs are largely fixed.

Research and development costs increased 14% to £75,000 in line with management policy.

Sales and marketing expenditure remained stable at £237,000.

Due to the weakness of the US dollar in the quarter and the reduction of the value of assets and balances denominated in US dollars, the Group had financing costs of £2,000.

Balance Sheet

The Group's current assets at 31 March 2007 were £4,309,000, which represents approximately 92% of assets (86% at 31 March 2006 and 92% at 31 December 2006).

Current liabilities decreased over the period from £1,930,000 at the end of 2006 to £1,746,000 due to decreases in other accounts payables. Long-term liabilities stood at £35,000 at the period end.

The Group's current ratio is a healthy 2.47.

Shareholders' equity decreased to £2,903,000, which arose from net losses of £74,000 and foreign currency translation adjustments of £41,000.

Liquidity

The Group had a negative cash flow from operating activities of £248,000 from its continuing operations during the period. The negative cash flow was mainly due to the loss for the period, an increase in trade receivables coupled with an increase in trade payables. At 31 March 2007 the cash and short term investment balances of the Company were £1,917,000 with total liabilities to banks at £29,000.

Len Israelstam, Chairman

David Sapiro, CEO

Jonathan Berger, CFO

CONSOLIDATED BALANCE SHEET
British pounds in thousands

	Three months ended 31 March		Year ended 31 December
	2007	2006	2006
	Unaudited		Audited
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	1,770	1,228	2,044
Short term investments	147	51	144
Trade receivables	2,120	2,241	1,828
Other accounts receivable	272	307	208
	<u>4,309</u>	<u>3,827</u>	<u>4,224</u>
LONG-TERM LOANS AND RECEIVABLES	<u>21</u>	<u>149</u>	<u>14</u>
FIXED ASSETS, NET			
Cost	1,374	1,393	1,324
Less - accumulated depreciation	<u>1,012</u>	<u>972</u>	<u>974</u>
	<u>362</u>	<u>421</u>	<u>350</u>
DEFERRED TAXES	<u>4</u>	<u>55</u>	<u>2</u>
	<u>4,696</u>	<u>4,452</u>	<u>4,590</u>

CONSOLIDATED BALANCE SHEET
British pounds in thousands

	Three months ended		Year ended
	31 March		31 December
	2007	2006	2006
	Unaudited		Audited
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Current maturities of long-term bank loans	16	26	18
Trade payables	405	446	334
Other accounts payable	1,325	1,458	1,266
	<u>1,746</u>	<u>1,930</u>	<u>1,618</u>
LONG-TERM LIABILITIES:			
Liabilities to banks	13	16	15
Accrued severance pay, net	22	11	12
	<u>35</u>	<u>27</u>	<u>27</u>
LIABILITIES RELATED TO DISCONTINUED OPERATIONS	<u>12</u>	<u>116</u>	<u>12</u>
SHAREHOLDERS' EQUITY	<u>2,903</u>	<u>2,379</u>	<u>2,933</u>
	<u><u>4,696</u></u>	<u><u>4,452</u></u>	<u><u>4,590</u></u>

CONSOLIDATED STATEMENTS OF INCOME

British pounds in thousands (except for net earnings (loss) per share amounts)

	Three months ended 31 March		Year ended 31 December
	2007	2006	2006
	Unaudited		Audited
Revenues			
Cost of revenues	1,826	2,042	8,162
	<u>1,189</u>	<u>1,245</u>	<u>4,911</u>
Gross profit	637	797	3,251
Research and development costs	75	66	283
Selling and marketing expenses	237	234	868
General and administrative expenses	426	398	1,553
	<u>738</u>	<u>698</u>	<u>2,704</u>
Operating income (loss)	(101)	99	547
Financial income (expenses) , net	(2)	31	13
Other incomes, net	-	-	271
	<u>(103)</u>	<u>130</u>	<u>831</u>
Net income (loss) before taxes on income	(103)	130	831
Taxes on income	29	(20)	(180)
	<u>(74)</u>	<u>110</u>	<u>651</u>
Net income (loss) from continuing operations	(74)	110	651
Income from discontinued operations, net	-	197	269
	<u>(74)</u>	<u>307</u>	<u>920</u>
Net income (loss)	(74)	307	920
Net earnings (loss) per share (in British Pence):			
Basic earnings (loss)			
Net earnings (loss) from continuing operations	<u>(0.28)</u>	<u>0.40</u>	<u>2.50</u>
Earnings from discontinued operations, net	<u>-</u>	<u>0.80</u>	<u>1.04</u>
Net earnings (loss) per share	<u>(0.28)</u>	<u>1.20</u>	<u>3.54</u>
Diluted earnings (loss)			
Net earnings (loss) from continuing operations	<u>(0.28)</u>	<u>0.40</u>	<u>2.47</u>

Earnings from discontinued operations, net	-	0.79	1.02
Net earnings (loss) per share	(0.28)	1.19	3.49

CONSOLIDATED STATEMENT OF CASH FLOWS
British pounds in thousands

	Three months ended 31 March		Year ended 31 December
	2007	2006	2006
	Unaudited		Audited
<u>Cash flows from operating activities:</u>			
Net income (loss)	(74)	307	920
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	(174)	(144)	155
Net cash provided by (used in) operating activities	(248)	163	1,075
<u>Cash flows from investing activities:</u>			
Purchase of fixed assets	(44)	(28)	(84)
Proceeds from sale of fixed assets	-	-	26
Short and long term investments, net	-	218	242
Net cash provided by (used in) continuing investing activities	(44)	190	184
Net cash used in discontinued investing activities	-	(46)	(64)
Net cash provided by (used in) investing activities	(44)	144	120
<u>Cash flows from financing activities:</u>			
Repayment of long-term loans from banks	(5)	(9)	(29)
Shares issue	-	-	14
Net cash provided by (used in) financing activities	(5)	(9)	(15)
Effect of exchange rate changes on cash and cash equivalents	23	(8)	(74)
Increase (decrease) in cash and cash equivalents	(274)	290	1,106
Cash and cash equivalents at the beginning of the	2,044	938	938

period			
Cash and cash equivalents at the end of the period	1,770	1,228	2,044

CONSOLIDATED STATEMENT OF CASH FLOWS
British pounds in thousands

	Three months ended 31 March		Year ended 31 December
	2007	2006	2006
	Unaudited		Audited
(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:			
Share-based payment cost	3	-	-
Loss (profit) from discontinued operations, net	-	(197)	(269)
Depreciation and amortization	36	35	146
Deferred taxes, net	(42)	3	53
Increase (decrease) in accrued severance pay, net	10	26	28
Capital loss (gain) from sale of fixed assets	-	-	(4)
Erosion of long-term loans	1	(1)	-
Changes in operating assets and liability items:			
Decrease (increase) in trade receivables, other accounts receivable and long-term loans and receivables	(319)	(263)	158
Increase (decrease) in trade payables and other accounts payable	137	253	43
	<u>(174)</u>	<u>(144)</u>	<u>155</u>
(b) <u>Non-cash investing and financing activities</u>			
Property and equipment acquired under capital leases	-	6	21

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

These financial statements have been prepared in a condensed format as of 31 March 2007, and for the three months then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of 31 December 2006 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) Accounting Standard No. 27 "Fixed Assets"

In September 2006 the Israeli Accounting Standards Board published Accounting Standard No. 27 ("Fixed Assets"), which establishes the accounting treatment for fixed assets, including recognition of assets, determination of their book value, related depreciation, losses from impairment as well as the disclosure required in the financial statements.

The Standard states that a fixed-asset item will be measured at the initial recognition date at cost which includes, in addition to the purchase price, all the related costs incurred for bringing the item to the position enabling it to operate in the manner contemplated by management. The cost also includes the initial estimate of costs required to dismantle and remove the item, along with the expenses incurred in reconstructing the site in which the item had been placed and in respect of which the entity incurred that obligation when the item had been acquired or following its use over a given period of time not in the production of inventory during that period.

The Standard also states that when acquiring assets in exchange for a non-monetary asset or a combination of monetary as well as non-monetary assets, the cost will be determined at fair value unless (a) the barter transaction has no commercial essence or (b) it is impossible to reliably measure the fair value of the asset received and the asset provided. Should the provided asset not be measured at fair value, its cost would equal book value.

Following the initial recognition, the Standard permits the entity to implement in its accounting policy the measurement of the fixed assets by the cost method or by revaluation method, as defined in the Standard, so long as this policy is implemented in regard to all items in that group.

This new Standard apply to financial statements covering periods beginning January 1, 2007 and onwards and implemented retroactively, except for in cases where an entity chooses, on 1 January 2007 the revaluation method and will treat the difference between the asset's estimated book value and its cost as a revaluation reserve at that time, or in case when an entity did not include in the cost of an item, upon initial recognition, the initial estimate of dismantling and removing costs along with site reconstruction costs.

This new standard does not have a material effect on the Company's financial position, results of operations and cash flows.

(2) Accounting Standard No. 23 "Accounting for Transactions between an Entity and a Controlling Party"

In December 2006 the Israeli Accounting Standards Board published Accounting Standard No.23. "Accounting for Transactions between an Entity and a Controlling Party (hereinafter-the standard). The standard applies entities subject to the Israeli Securities Law -1968.

The standard establishes the requirements for accounting for transactions between an entity and its controlling party which involve the transposition of an asset, the taking on of a liability, reimbursement or debt concession, and the receiving of loans. The standard does not apply to business combinations under common control.

The standard stipulates that transactions between an entity and a controlling party will be measured based on fair value transactions which in nature are owner investment should be report directly in equity and not be recognized in the controlled entity's profit and loss, the differences between the consideration set in transactions between an entity and a controlling party and their fair value will be allocated directly to the equity and current and deferred taxes pertaining to the items allocated to equity due to transactions with controlling parties will be allocated directly to equity as well.

The standard is effective for transactions between an entity and a controlling party taking place subsequent to 1 January 2007 and for loans granted from or given to a controlling party prior to the Standard's coming into effect, starting on the standard's effective date.

This new standard does not have a material effect on the company's financial position, results of operations and cash flows.

- c. Disclosure of the effects of new Accounting Standards prior to their adoption:

Accounting standard No. 29 "Adoption of International Financial Standards"

In July 2006, the Israeli Accounting Standard Board published Accounting Standard No. 29 "Adoption of International Financial Standards (IFRS)" hereafter – "the Standard"). The Standard provides that entities that are subject to the Securities Law, 1968 and that are required to report in accordance with this Law's provisions, shall prepare their financial statements pursuant to IFRS standards for periods commencing January 1, 2008.

Initial adoption of IFRS Standard is to be effected by means of application of the provisions of IFRS 1, "First-Time Application of IFRS Standards", for purposes of the transition.

In accordance with the Standard, the Company is required to include in a note to the annual financial statements as at December 31, 2007 the balance-sheet data as at December 31, 2007 and the income-statement for the year then ended, after they have undergone application of the recognition, measurement and presentation rules of IFRS Standards.

The Company is preparing itself to adopt IFRS regulations. The company expects, at this stage, that the adoption will have bearing on the following:

- a. Employee benefits, severance pay- current Israeli accounting practices account for liability for severance pay based upon the last full monthly salary of the employees. Following the adoption of the IFRS19, regarding employee benefits, the company expects a reduction in the provision against the reserves. This expectation is based upon the requirement that actuarial estimates be used to calculate the liability, as opposed to current Israeli accounting practices that calculate the provision as the last salary of the employees under the assumption that they will all leave and are entitled to full compensation.
- b. Share based payments- following the adoption of IFRS2 regarding share based payments, the Company estimates that it might have to write off to expenses previous grants of shares to employees that were not exercised prior to the above adoption dates.

- 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>
31 March 2007	8.1253

31 March 2006	8.1271
31 December 2006	8.2884

Change during the period	%
March 2007 (three months)	(2.0)
March 2006 (three months)	2.3
December 2006 (12 months)	4.4

NOTE 3:- SEGMENTS

	Three months ended 31 March 2007				
	Israel	Europe	North America Unaudited	Adjustments	Total
	British pounds in thousands				
Total revenues	<u>712</u>	<u>690</u>	<u>481</u>	<u>(57)</u>	<u>1,826</u>
Segment results	<u>40</u>	<u>98</u>	<u>(87)</u>	<u>-</u>	<u>51</u>
General joint expenses unallocated					<u>(152)</u>
Operating loss					<u>(101)</u>

	Three months ended 31 March 2006				
	Israel	Europe	North America Unaudited	Adjustments	Total
	British pounds in thousands				
Total revenues	<u>810</u>	<u>686</u>	<u>650</u>	<u>(104)</u>	<u>2,042</u>
Segment results	<u>18</u>	<u>113</u>	<u>99</u>	<u>-</u>	<u>230</u>
General joint expenses unallocated					<u>(131)</u>
Operating income					<u>99</u>

	Year ended 31 December 2006				
	Israel	Europe	North America Audited	Adjustments	Total
	British pounds in thousands				
Total revenues	3,240	2,746	2,613	(437)	8,162
Segment results	199	532	322	-	1,053
General joint expenses unallocated					(506)
Operating income					547

NOTE 4:- POST BALANCE DATE EVENTS

After the date of the balance sheet a suit for 1,200,000 NIS was filed against the Company by a former employee. The Company's management, based upon the advice of its legal consultants, considers that it has valid defence that would result the judgment in its favour. Therefore in its financial reports the Company has included only expenses for legal fees.