

Pilat Technologies International Ltd.

*Abridged Report of the Board of Directors on the
Corporation's State of Affairs
for the year ended on December 31st, 2009*

We are hereby honored to submit to the shareholders of Pilat Technologies Ltd, the report of the board of directors for the year ended on December 31st, 2009.

1. Description of the Corporation and its Business Environment

See the report on the corporation's business operations attached herewith.

2. Analysis of the Business Results

Summary of the profit and loss statements (in thousands of NIS)

On a quarterly basis	3 months 1-3/09	3 months 4-6/09	3 months 7-9/09	3 months 10-12/09	On an annual basis - '09	On an annual basis - '08
Revenues from sales and provision of services	12,263	11,248	11,275	12,005	46,791	56,744
Cost of sales and services	7,868	7,606	7,290	7,165	29,929	37,753
Gross profit	4,395	3,642	3,985	4,840	16,892	18,991
Research and development expenses	977	1,186	1,064	642	3,869	4,741
Sales and marketing expenses	1,018	836	675	767	3,296	6,005
General and administrative expenses	2,332	2,716	2,014	2,216	9,278	12,636
Other net (revenues)/ expenses	(25)	-	-	13	(12)	167
Profit (loss) from ordinary operations	93	(1,096)	232	1,202	431	(4,558)
Net financing	568	(690)	(305)	25	(402)	(220)
Profit (loss) before income tax	661	(1,786)	(73)	1,227	29	(4,778)
Taxes on revenue	8	94		(321)	(219)	393
Net profit (loss)	669	(1,692)	(73)	906	(190)	(4,385)

3. Results of the Operations

A. For the year ended on December 31st, 2009

Sales

The sales turnover amounted to a total of 46,791 thousands of NIS, compared with 56,744 thousands of NIS in 2008, a decrease totaling 9,953 thousands of NIS (a decrease of about 18% as compared with last year's sales).

The sales by geographical regions were as follows:

	Europe		North America		Israel	Consolidated
	British pounds	In reported NIS	US dollar	In reported NIS	In reported NIS	In reported NIS
2009	2,079	12,720	3,308	13,012	21,059	46,791
2008	2,594	17,265	3,700	13,176	26,303	56,744
Change	-20%	-26%	-11%	-1%	-20%	-18%

The global crisis left its marking in the course of the year 2009, and the company's sales in all of the sectors decreased, as compared with the year 2008.

In the sales in Europe, which are administered by the subsidiary in the United Kingdom and where the local currency is British pound, the sales decreased by about 20%. In terms of NIS, the sales decreased by about 26%.

In North America, the sales in 2009 decreased in terms of US dollars by about 11% and in terms of NIS they decreased by about 1%, as compared with 2008.

In Israel, the sales of the company decreased by 20% in the course of the year 2009, and stood at about 21,059 thousands of NIS, as compared with 26,303 thousands of NIS in 2008.

Gross Profit

The gross profit amounted to about 16,862 thousands of NIS (about 36% of the sales turnover), as compared with a gross profit of about 18,991 thousands of NIS (about 33% of the sales turnover) in the year 2008.

Although the sales of the consolidated company decreased in the course of the year 2009 by about 18%, the gross profit only decreased by about 11%, principally due to a decrease in the company's structure of expenses. In the course of the year 2009, the company completed the expense cutting process so as to adjust the expenses to the revenues the company had forecast due to the global economic crisis.

Research and Development Expenses

The company's research and development expenses are allocated to the profit and loss statement upon their incurrence. In the year 2009, those expenses stood at 3,869 thousands of NIS, a decrease of about 18% as compared with the year 2008, which amounted to about 4,741 thousands of NIS.

In light of global crisis, the company cut back on those expenses, principally by discontinuing works performed by sub-contractors, as well as cutting down incidental costs.

Sales and Marketing Expenses

The sales and marketing expenses amounted to about 3,296 thousands of NIS in 2009, as compared with about 6,005 thousands of NIS (a decrease of about 45%) in the year 2008.

The decrease in those expenses in the course of the year 2009 stems from both a reduction of the commissions of the sales agents as a result of the decrease in revenues and a cutback in the marketing and advertising expenses commencing from the second half of 2008 and in the course of the year 2009, and this owing to the measures taken by the company with a view to the crisis in the global economy.

General and Administrative Expenses

The general and administrative expenses amounted to about 8,278 thousands of NIS, as compared with 12,636 thousands of NIS (a decrease of about 27%) in the year 2008.

The expenses in the year 2009 were cut back as part of the company's efficiency plan, and the expenses in 2008 included one-time expenses on account of worker's retirement and provision for doubtful debts.

Operating Profit

The company's operating profit amounted to about 431 thousands of NIS, as compared with an operating profit of about 4,558 thousands of NIS in the year 2008. The principal reason for the profit is an expense

reduction carried out by the company starting from mid-2008, when it had felt through its operations that an economic crisis might loom.

Taxes on Revenue

As a result of the operating profit in the operations in the USA, the company recorded tax expenses in the amount of about 219 thousands of NIS, as compared with tax revenues in the total amount of about 393 thousands of NIS in the year 2008.

Net Loss

In the year 2009, the company recorded a net loss of about 190 thousands of NIS, as compared with a net loss of 4,385 thousands of NIS in the year 2008.

B. Results of the Business Operations of the Three Months Ended on December 31st, 2009

The following are the results of the business operations for the last quarter of the year 2009, the third quarter of 2009 and the corresponding (fourth) quarter of last year:

On a quarterly basis	Q4 2009	Q3 2009	Q4 2008
Revenues from sales and provision of services	12,005	11,275	12,207
Cost of sales and services	7,165	7,290	9,374
Gross profit	4,840	3,985	2,833
Gross spread - %	40%	35%	23%
Research and development expenses	642	1,064	947
Sales and marketing expenses	767	675	916
General and administrative expenses	2,216	2,014	3,535
Other net (revenues)/ Expenses	(12)	-	(27)
Profit from ordinary operations	1,202	232	(2,538)
Net financing	25	(305)	309
Profit (loss) before income tax	1,227	(73)	(2,229)
Taxes on revenue	(321)	-	125
Net profit (loss)	906	(73)	(2,104)

Sales

The following are the company's sales by geographical distribution, in local currency as well as in NIS, in the fourth quarter of 2009, as compared with the preceding quarter in 2009 and with the corresponding (fourth) quarter in 2008:

	Europe		USA		Israel	The Group
	Thousands of British pounds	Thousands of NIS	Thousands of dollars	Thousands of NIS	Thousands of NIS	Thousands of NIS
Fourth quarter of 2009	409	2,515	979	3,708	5,782	12,005
Fourth quarter of 2008	512	3,055	821	3,133	6,029	12,217
Third quarter of 2009	518	3,257	763	2,921	5,097	11,275
The change, as compared with the fourth quarter of 2008	-20%	-18%	19%	18%	-4%	-2%
The change, as compared with the third quarter of 2009	-21%	-23%	28%	27%	13%	6%

The Group's sales in said quarter amounted to about 12,005 thousands of NIS, similarly to the sales in the corresponding quarter of 2008, which stood at about 12,217 thousands of NIS, a rise of about 6% compared with the sales in the third quarter of 2009, which stood at about 11,275 thousands of NIS.

The Group's sales in Israel amounted to 5,782 thousands of NIS, as compared with 6,029 thousands of NIS in the corresponding quarter of 2008, a decline of about 4% and - as compared with 5,097 thousands of NIS in the third quarter of 2009 - a rise of about 13%.

In Europe, the Group's sales in the last quarter of 2009 amounted to about 2,515 thousands of NIS, and in terms of local currency – at about 409 thousands of British pounds. As compared with the corresponding quarter of last year, the sales declined in terms of the local currency, the British pound, by about 20% (512 thousands of British pounds), and in terms of NIS, the sales declined by about 18%. In the third quarter of 2009, the company's sales in Europe amounted to about 3,257 thousands of NIS, which are about 518 thousands of British pounds, a decline of about 21% and 23%, respectively.

In the USA, in terms of US dollars, the sales in the last quarter of 2009 amounted to about 979 thousands of dollars, as compared with 763 thousands of dollars in sales in the third quarter of 2009 (an increase of about 19%) and 821 thousands of US dollars in the corresponding quarter of last year (a rise of about 28%).

In terms of NIS, the Group's sales in the USA amounted in said quarter to about 3,708 thousands of NIS, as compared with 3,133 thousands of NIS in the corresponding quarter of 2008, a rise of about 18%, and with 2,921 thousands of NIS in the third quarter of 2009, a rise of about 27%.

Gross Profit

The gross profit amounted to a total of 4,840 NIS (about 40% of the sales turnover) as compared with 2,833 NIS (about 23% of the sales turnover) in the corresponding quarter of last year and 3,985 thousands of NIS in the third quarter of 2009 (about 35% of the sales turnover).

The growth is due to several reasons, of which the principal ones are retention of the sales level and completion of the process of cutting the costs in the Group, which has brought about a decrease in the costs of sales and growth in the gross profit.

Research and Development Expenses

The company's expenses are research costs, and those are allocated to profits and losses upon their incurrence. The company's expenses in the fourth quarter of 2009 stood at about 642 thousand NIS, a compared with the expense of 1,064 of thousands of NIS in the third quarter of 2009 (a decrease of about 40%) and the expense of about 947 thousand NIS in the corresponding quarter of last year (a decrease of about 32%).

Since the research is carried out on behalf of the company also by sub-contractors, the company was able to cut back on expenses immediately after the decrease in sales, as well as to adjust the level of research and development to the company's operations. The reduction of the research and development expenses in the fourth quarter of 2009 stemmed both from the completion of the cutback plan the company had already

embarked upon as early as 2008 and from a one-time deduction of about 300 thousand NIS, which was due to charges effected among companies within the Group.

Sales and Marketing Expenses

The company's expenses in the fourth quarter of 2009 stood at about 767 thousand NIS, as compared with about 675 thousand NIS in the third quarter of 2009 (an increase of about 14%), as compared with 916 thousand NIS in the corresponding quarter of last year (a decrease of about 16%).

The decrease in expenses stems from the cutback and efficiency plan performed by the management of the company with a view to preparing for a decline in operations due to the economic crisis. Among others, the company cut down on the agents' commissions, on the establishment, advertising, as well as on incidental expense.

General and Administrative Expenses

The general and administrative expenses for the last quarter of 2009 stood at about 2,216 thousands of NIS, as compared with the expense of 2,014 thousand of NIS in the preceding quarter of 2009 (an increase of about 10%) and the expense of 3,535 thousands of NIS in the corresponding quarter of last year (a decrease of about 37%).

The main reason for the decrease in the general and administrative expenses, as compared with the corresponding quarter, are the expense cut plan that the company carried out starting from the second half of 2008.

Operating Profit

The operating profit for the last quarter of 2009 stood at about 1,202 thousands of NIS, as compared with a profit of 232 thousand NIS in the third quarter of 2009 and an operating loss of 2,538 thousand NIS in the corresponding quarter of last year. The profits, relative to the results obtained in the other periods, stemmed principally from the retention of the revenue level, as well as from an expense cut.

Net Financing

The net financing revenues in the last quarter of 2009 amounted to about 25 thousand NIS, as compared with an expense of 305 thousand NIS in the preceding quarter of 2009 and net revenues of 309 thousand NIS in the corresponding quarter of last year.

The financing revenues in said quarter were principally due to interest revenues from deposits, which were set off against interest payments on a loan taken up by the company from the Israel Bank in late 2008.

Taxes on Revenue

The expenditure on taxes in the fourth quarter of 2009 amounted to about 321 thousands of NIS, as compared with about 125 thousand NIS in the corresponding quarter of last year, and principally stemmed from taxation on operations in North America.

The Profit for Said Period

The net profit in the last quarter of 2009 amounted to about 906 thousand NIS, as compared with a loss of 73 thousand NIS in the preceding quarter and a loss of 2,104 thousands of NIS in the corresponding quarter of last year.

4. Revenues and Profitability of Sectors

Human Resource Operations

The company is engaged in providing services and in developing software programs for managing human resources.

5. Financial Position

Current Assets

The current assets as of December 31st, 2009, amounted to 27,907 thousands of NIS, similarly to 27,904 thousands of NIS as of December 31st, 2008.

The cash value and the short term investments stood together, on December 31st, 2009, at 14,840 thousands of NIS, as compared with 14,118 thousands

The company's customers as of December 31st, 2009, accounted for about 11,645 thousands of NIS, as compared with 12,606 thousands of NIS as of December 31st, 2008, a decrease of about 961 thousand NIS. The decrease in customers principally stems from a slight decline in the company's sales in the fourth quarter

of 2009, as compared with the corresponding quarter of last year, as well as from an improvement in the collection of money from customers and from bad debt write-off.

Non-Current Assets

The non-current assets amounted on December 31st, 2009 to about 2,118 thousands of NIS, as compared with 3,321 thousands of NIS on December 31st, 2008.

The changes to the non-current assets in the course of the year resulted from deductions of the depreciation of fixed and non-tangible assets, while eliminating asset growth on account of workers bonuses, which stemmed from the appreciation of the fund for severance pay in the course of 2009 and also from a decrease in taxes receivable.

Current Liabilities

The company's current liabilities stood at about 10,626 thousands of NIS on December 31st, 2009, as compared with 12,598 thousands of NIS on December 31st, 2008, a decrease of about 1,972 thousands of NIS.

The current liabilities are principally due to the company's expense level in the quarter that preceded the date of the balance sheet. In the last quarter of 2009, the company's operating expenses stood at about 10,778 thousands of NIS, as compared with expenses amounting to 14,780 thousands of NIS in the corresponding quarter of last year, for which reason the company's liabilities diminished correspondingly.

Non-Current Liabilities

Non-current liabilities as of December 31st, 2009 stood at about 2,076 thousands of NIS, as compared with 2,517 thousands of NIS as of December 31st, 2008. The reduction is principally due to the repayment of a loan from a banking corporation, a reduction of liabilities due to workers bonuses on account of an improvement in the performance of the funds for severance pay in the course of 2009, while eliminating an increase in the deferred taxes.

Capital

The company's capital as of December 31st, 2009 amounted to about 17,323 thousands of NIS, as compared with 16,110 thousands of NIS on December 31st, 2008, an increase of about 1,213 thousands of NIS.

The capital growth is principally due to an adjustment in the amount of 228 thousands of NIS, which results from a translation of the financial statements of the subsidiaries that do not operate in Israel, 291 thousand NIS that have accrued from the realization of a loan among companies in foreign currency, as well as from a premium on shares that is due to the exercise of options in the amount of 774 thousand NIS.

Financial Ratios

The total balance as of December 31st, 2009, stands at about 30,025 thousand of NIS, a decrease of about 1,200 thousands of NIS as compared with the total balance as of December 31st, 2008, which stood at about 31,225 thousands of NIS. The reduction in the balance essentially results from the reduction in the non-current assets.

6. Liquidity and Financing Sources

Cash Flow from Current Operations

The cash flow that resulted from the company's current operations amounted to about 1,069 thousands of NIS in 2009, as compared with a total of about 1,893 thousands of NIS used for current operations in 2008, an increase of about 2,962 thousands of NIS.

The cash flow that resulted from the current operations in 2009 stemmed from adjustments to the net loss in the amount of 1,712 thousands of NIS, with changes in asset and liability items accounting for about 813 thousands of NIS, along with cash transactions in the amount of about 360 thousand NIS. Said adjustments include depreciation and deductions in the amount of 1,232 thousands of NIS, as well as changes in financing expense items.

Cash Flow from Investment Operations

The cash flow used for the investment operations in the year 2009 amounted to about 645 thousand NIS, and it was principally used for purchasing fixed assets and for additional payments for buying operations in Israel in 2008.

Cash Flow from Financing Operations

The cash flow resulting from the Company's financing operations amounted in 2009 to about 152 thousand NIS, and was principally due to a consideration for the exercise of option warrants in the total amount of 786

thousand NIS, while eliminating the repayment of loans - primarily from an Israeli banking corporation - in the amount of 634 thousand NIS.

7. Board of Directors and Management

During the period of the report, the changes that occurred to the company's board of directors were the following:

1. On April 25th, 2009, after a term in office of 3 years, the external director Ms. Batami Sadan ceased serving as director in the company.
2. On July 22nd, 2009, Ms. Miriam Mazar started serving as director in the company, in her capacity as external director.
3. On July 22nd, 2009, Mr. Dov Goldstein ceased serving as director in the company.

8. Remuneration of High-Ranking Employees

The considerations that guided the company's board of directors in setting the wage payments and the grants to officers were principally based upon the status and role of each of them, along with the contribution made by each of them to the company's operations and advancement.

Likewise, when considering the remuneration, the results of the operations carried on in the year 2009 are taken into account relative to the preceding year, given that the world economy entered a recession starting from the second half of 2008 on the one hand, and since the company prepared for an economic crisis that might adversely affect the company's results on the other hand.

In light of the above, the company's board of directors holds the view that the remuneration of high-ranking officers is fair and reasonable.

In the month of January 2009, the management of the company decided to cut 10% in the wages of the high-ranking employees in Israel. In February 2010, the wages of the high-ranking officers in Israel were restored to their original size.

9. Critical Accounting Estimates

When compiling the financial statements pursuant to accepted principles of accounting, the management is required to use estimates and evaluations affecting the reported data on the assets and liabilities, contingent assets and contingent liabilities that have been disclosed in the financial statements, as well as regarding revenues and expenses in the reported period. It may be the case that the future realization of the estimates and evaluations will differ from the evaluations used when compiling the financial statements. Some of those estimates and evaluations are critical for the financial position or for the business results.

1. Doubtful Debts

The financial statements included provision for doubtful debts where, in the management's estimation, the loss might be due to debts whose collection is doubtful. The provision for doubtful debts includes, for the most part, specific provisions. When determining the appropriateness of said provisions, the management drew among others on the information available to it concerning the financial position of debtors, the volume of their operations, as well as on an evaluation of the securities received from them. It should be pointed out that the actual collection of debts might differ from the management's estimations. See Note 5.

2. Contingent Liabilities

The companies of the Group have various contingent liabilities, as described in Note 16 to the financial statements. The company examines the liabilities on a periodic basis, based upon the statement of opinion given by its consultants, as well as the liabilities embodied in those, if any. The company then records, if necessary, a provision for doubtful debts in the financial statements. Those evaluations draw upon the best professional judgment of legal and other consultants, as well as considering the stages in which the procedures are in and the experience gained. The results might differ from the provisions thus recorded.

3. Decrease in the Value of Assets

The company examines at each date when the balance sheet is compiled whether changes in circumstances have occurred, which indicate that there has been a decrease in value in one or more of the non-monetary assets. Upon occurrence of signs of such decrease in value, it is examined whether the amount presented as the investment in said asset might be recovered from the capitalized cash flows expected from that same asset. If necessary, a provision is record for a decrease in value, and this up to the amount that is recoverable. The cash flow capitalization is calculated at an after-tax capitalization rate, which reflects the market evaluation concerning the money value of the money and the specific risks pertaining to the asset. The determination of the estimates of the cash flows draws upon the past experience of this asset or similar assets, as well as upon

the company's best estimation concerning the economic conditions that shall prevail during the course of the remainder of the asset's useful life. Changes in the company's estimations might, as stated, result in substantial changes in the book values of the assets and in the results of the business operations.

4. Assets and Liabilities on Account of Workers Bonuses

These assets and liabilities draw upon actuarial calculations comprising many calculation assumptions, which might be different in actual practice. Those assumptions make reference, among others, to interest rates for capitalization purposes, mortality tables, wage creep and the departure rates estimated by an actuary. For changes in the estimates on account of those liabilities, see Note 14 in the financial statements.

10. Donations

The company is committed to the community in which it operates, and attaches great value to actively participating in this community by way of making donations to various institutions with a view to ensuring the support and partnership of commercial firms with non-profit organizations. In the course of the year, the company has donated about 18 thousand NIS.

11. Disclosure about the Internal Auditor at the Corporation

11.1 The internal auditor at the company is Mr. Ami Emanueli, an accountant, who has held this office since 2001.

11.2 The internal auditor has been a certified public accountant since 1982, and is likewise a member of the Israel Chamber of Accountants. He holds a Bachelor's degree in accounting and economics from Tel Aviv University. The internal auditor is an associate at the firm Emanueli & Assoc. Accountants.

11.3 To the company's best knowledge, the internal auditor complies with the provisions of section 146(B) of the Companies Law, 5759 - 1999, as well as with the provisions of section 8 of the Internal Audit Law (hereinafter referred to as "the Internal Audit Law").

11.4 The internal auditor is not an employee of the company, and he provides external services to the company.

11.5 The official who is, organizationally speaking, in charge of the internal auditor is the CEO of the company.

- 11.6 Setting the Audit Program - The audit program in the reported year was set by the company's audit committee, which was guided by diverse considerations such as risk foci in the company, as well as recommendations made by the internal auditor and management of the company.
- 11.7 The audit is conducted concerning the operations of the company and of its subsidiaries in Israel, depending upon the subject matter and its relevance for each of the companies.
- 11.8 The internal auditor performs the audit pursuant to the provisions of the Internal Audit Law and the professional standards published and updated by the Israel Chamber of Internal Auditors, as well as according to generally accepted auditing standards. The internal auditor is knowledgeable about independently, objectively, professionally and carefully conducting internal audits.
- 11.9 All the documents and information requested by the internal auditor are submitted to him. Likewise, he is afforded free access to the information as stated, including constant and immediate access to the company's information systems, including the financial data.
- 11.10 In the course of the year 2009, the internal auditor submitted a report concerned with wages and personnel, concerning which a discussion was held at the audit committee.

In the course of the month of December 2009, the internal auditor made a visit to the offices of the company Pilat Europe Ltd. in London. Following said visit, the internal auditor submitted to the CFO of the company Pilat Technologies International Ltd., in the course of the month of March 2010, a draft report concerned with the following subjects: revenues and receipts from customers, expenses and payments made to suppliers and service providers, wages and personnel in Pilat Europe.

- 11.11 The CFO of the company will give his remarks on the report after he has thoroughly read it, together with the management members of Pilat Europe Ltd. The audit committee will discuss the report and responses to it at its meeting, which is expected to be held in May 2010.
- 11.12 The wages of the internal auditor on account of the services delivered by him consist of \$115 per hour for Mr. Emanueli and \$50 for an employee who has assisted him with the audit. Nonetheless, an understanding was reached that the fees would not exceed the amount of 30,000

NIS. In the view of the board of directors, the remuneration given to the internal auditor does not affect the professional discretion he exercises.

11.13 In the estimation of the company's board of directors and the audit committee, the extent, nature and continuity of the activity and work plan engaged in by the internal auditor are reasonable under the circumstances, and that amount to accomplishing the goals of the internal audit conducted in the company.

12. Professional Fees of the Auditing Accountants

The following is a detailed specification of the total wages of the accountant of the corporation for the years 2009 and 2008 in the following breakdown (in thousands of NIS)

	<u>Thousands of NIS</u>		<u>Hours</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Wages of the Group's external accountant	203	220	1,066	1,279
Wages of the external accountant of the overseas subsidiaries	275	251	362	307
Incidental services	128	125	170	153

13. The Procedure for Approving Financial Statements

The company's board of directors is the organ discussing the financial statements and approving those, after the members of the board of directors receive the draft of the financial statements prior to the meeting. Even though the company has no balance-sheet committee and the financial statements are discussed at meetings of the board of directors, members of the audit committee meet with the auditing accountants so as to hear and inquire about the procedure for preparing the statements.

During the course of the board of directors meeting, at which the financial statements are discussed and approved, the CFO of the company reviews at length the fundamentals of the financial statements and the substantial issues in the financial reporting, including transactions that are not in the ordinary

course of business if any, along with the substantive evaluations and the critical estimates implemented in the financial statements, the plausibility of the data, the accounting principles thus applied and changes that have occurred thereto, as well as the implementation of the proper disclosure principle in the financial statements and in the accompanying information.

At the meeting of the board of directors, at which the financial statements are discussed and approved, are invited and present representatives of the accountant and comptroller of the company, and they usually add their remarks and insights as to the financial statements and are at the service of the board of directors for any question and clarification as to said statements prior to their approval.

14. Events Following the Date of Balance Sheet

There occurred no substantial events.

15. Effectiveness of the Internal Control over Financial Reporting and Disclosure

On November 24th, 2009, the Finance Committee of the Israeli Parliament, the Knesset, approved the proposal made by the Securities Authority for adopting regulations concerned with the internal control structure in charge of financial reporting and disclosure in corporations, so that those would provide a reasonable measure of confidence in the adequacy of the statements and their compliance with the legal provisions. (The Securities Regulations (Periodic and Immediate Reports) (Amendment No. 3), 5769 - 2009 (hereinafter referred to as "the Regulations")).The Regulations were published in the records in the month of December 2009.

The goal pursued by the Regulations is to improve the quality of financial reporting and disclosure in corporations reported on, and this by means of three main elements:

1. The submission of a report by the board of directors and the company management concerning the effectiveness of the internal control over financial reporting and disclosure.
2. Personal declarations that are to be given by the CEO of the company and its CFO, according to which, it is among others the case that, to the best of their knowledge, the financial statements and the other financial information included in the statements do not include any incorrect representation of a material fact, and that not lacking either is a representation of a material fact necessary for the representations included in those not be misleading. Likewise, they should declare that to their knowledge, the financial

statements and other financial information included in the statements adequately reflect, in all substantial aspects, the financial position, the result of the operations and the cash flows of the company, and also that they have evaluated the effectiveness of the internal control over financial reporting and disclosure.

3. To the periodic report shall be attached a statement of opinion of the auditing accountant of the company concerning the effectiveness of the internal control over financial reporting in the company, as well as about substantial weaknesses he has detected in said control.

The application of said provisions shall commence in the periodic report for December 31st, 2010 (hereinafter referred to as "**the Date of Commencement of Application**"). Up until the Date of Commencement of Application, it is required that disclosure be made in the board of directors' report for that date and for the interim period to end on June 30th, 2010 concerning the acts performed by the company in preparation for meeting the requirements of the Regulations.

Disclosure about the acts performed by the company with a view to implementing the Regulations up until the date of this report:

For the purpose of implementing said Regulations, the company laid down a preparation plan, as part of which the CFO of the company, Mr. Jonathan Berger was appointed to be the company official in charge of implementing said plan.

As part of the plan, substantial processes and items in the consolidated financial statements of the company (in both quantitative and qualitative terms) have been mapped, and work phases for implementation have been defined.

Implemented as part of the plan are the following basic stages:

1. Mapping processes and items that are essential for financial reporting and disclosure.
2. Identifying risks for financial reporting and disclosure, while detecting at the same time very substantive control processes that would provide a response to those risks.
3. Mapping existing control gaps as against desirable controls, along with performing actions for improvement.
4. Checking the effectiveness of controls (tests).

For the purpose of mapping those very essential processes, the company weighted quantitative and qualitative factors. The principal qualitative criteria taken into consideration included, among others,

the complexity of the accounting process involved in the recording of such financial reporting, the complexity of the information systems supporting the business process, an evaluation of the risks of fraud, embezzlements and errors, the extent of discretion exercised in the process, the existence of evaluations and estimates and more.

Of all the processes thus mapped, the following are the processes defined as being very essential for financial reporting and disclosure:

1. Overarching enterprise-level control (ELC) - General controls that might have an overall effect on the enterprise by way of providing the foundation for the mindset and nature of the activity performed within the enterprise. Those controls include, among others, the extent to which procedures are complied with, ethics and morals, communications among management and control bodies, as well as the independence of control bodies within the enterprise.
2. The process of closing and compiling the financial statements.
3. Information systems - Information technology general controls (ITGC).
4. Human resources and wages.
5. Revenues and taxes.
6. The treasury department and cash.
7. Transactions concluded among companies, as well as among related parties.

As of the date of this report, the company continues operations in preparation for the milestones as set.

Chaim Helfgott, Director
and Secretary of the Company

Michael Zuckerman,
Chairman of the Board of Directors
and CEO of the Company