

Pilat Technologies International Ltd.

Abridged Consolidated Interim Financial Statements

as at June 30, 2010

Unaudited

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**Auditor's review to the shareholders of
Pilat Technologies International Ltd.**

Preface

We have reviewed the attached financial information of **Pilat Technologies International Ltd.** and its subsidiaries (hereinafter – “the Group”), which include the condensed consolidated balance sheet as at June 30, 2010 and the condensed consolidated statements of income, of comprehensive income, the changes in shareholders’ equity and cash flows for the periods of six months and three months then ended. The Board of Directors and Management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with International Accounting Standard IAS 34 “Financial Reporting for Interim Periods”, and they are also responsible for the preparation of the financial information for these interim periods pursuant to Chapter D. of the Securities Regulations (Interim and Immediate Reports) - 1970. Our responsibility is to express a conclusion only the financial information for these interim periods based on our review.

We did not review the condensed financial information for interim periods of consolidated companies whose assets included in the consolidation comprise 34% of all the consolidated assets as at June 30, 2010, and whose revenues included in the consolidation comprise 52% and 53% of total consolidated revenues for the periods of six months and three months then ended, respectively. The condensed financial information for the interim periods for those companies were reviewed by other auditors whose review reports were furnished to us, and our conclusions, to the extent that they relate to the financial information for those companies, are based on the review reports of the other auditors.

Extent of the review

We carried out our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel “Review of financial information for interim periods prepared by the entity’s auditor”. A review of financial information for interim periods comprises clarifications, mainly with the people responsible for financial and accounting matters, and using other analytical review procedures. A review is considerably more limited in scope than an audit carried out in accordance with generally accepted auditing standards in Israel, and therefore does not enable us to obtain sufficient certainty that we will be aware of all significant matters which could have been identified in an audit. Consequently we are not expressing an opinion of an audit.

Conclusion

Based on our review and on the review reports of the other auditors, we are not aware of any fact which would cause us to think that the above financial information has not been prepared, from all significant aspects, in accordance with international accounting standard IAS 34.

In addition to the remark in the previous paragraph, based on our review and on the review reports of other auditors, we are not aware of anything which could cause us to think that the above financial information does not meet, from all significant aspects, the disclosure provisions pursuant to Chapter D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Tel Aviv,
August 30, 2010

Troyaner Gelbar Aloni
Certified Public Accountants

Pilat Technologies International Ltd.

Consolidated balance sheets

	As at June 30,		As at December 31,
	2010	2009	2009
	Unaudited		Audited
	NIS thousands		NIS thousands
<u>Current assets</u>			
Cash and cash equivalents	15,127	13,871	14,463
Short-term investments	388	-	377
Trade receivables	10,235	10,962	11,645
Other receivables	1,034	1,049	875
Taxes receivable	550	212	547
	<u>27,334</u>	<u>26,094</u>	<u>27,907</u>
<u>Non-current assets</u>			
Long-term receivables	104	486	66
Prepaid expense for operative leasing, net	159	132	138
Fixed assets, net	1,152	1,358	1,181
Intangible assets, net	370	854	623
Assets for benefits to employees	28	-	110
	<u>1,813</u>	<u>2,830</u>	<u>2,118</u>
<u>Total assets</u>	<u>29,147</u>	<u>28,924</u>	<u>30,025</u>

Pilat Technologies International Ltd.

Consolidated balance sheets

	As at June 30,		As at December 31,
	2010	2009	2009
	Unaudited		Audited
	NIS thousands		NIS thousands
<u>Current liabilities</u>			
Current maturities for long-term loans	-	604	600
Trade payables	2,080	1,625	1,538
Other payables	6,985	8,249	8,441
Taxes payable	827	-	47
	-	100	100
	<u>9,892</u>	<u>10,478</u>	<u>10,626</u>
<u>Long-term liabilities</u>			
Loans from banks	-	2,002	1,702
Deferred tax	97	-	291
Liabilities for benefits to employees, net	100	242	83
	<u>197</u>	<u>2,244</u>	<u>2,076</u>
Total liabilities	<u>10,089</u>	<u>12,722</u>	<u>12,702</u>
<u>Shareholders' equity relating to the Company's shareholders</u>			
Share capital	396	383	389
Premium on shares	57,126	55,915	56,407
Treasury stock	(751)	(751)	(751)
Balance of loss	(35,965)	(37,747)	(36,914)
Capital reserve from translating differences	(2,436)	(2,156)	(2,414)
Other capital reserves	688	58	606
	<u>19,058</u>	<u>16,202</u>	<u>17,323</u>
<u>Total liabilities and capital</u>	<u>29,147</u>	<u>28,924</u>	<u>30,025</u>

August 30, 2010

Date of approval of the
financial statements

Michael Zuckerman
Chairman of the Board
And CEO

Chaim Helfgot
Director

Jonathan Berger
CFO

Consolidated statement of income

	For the 6 months ended June 30,		For the 3 months ended June 30,		For the year ended December 31,
	2010	2009	2010	2009	2009
	Unaudited		Unaudited		Audited
	NIS thousands		NIS thousands		NIS thousands
Note	(Excluding data on net earnings (loss) per share)				
Revenues from sales and services	23,659	23,511	12,018	11,248	46,791
Cost of sales and services	14,658	15,474	7,303	7,606	29,929
Gross profit	9,001	8,037	4,715	3,642	16,862
Research and development expenses	1,809	2,163	890	1,186	3,869
Selling and marketing expenses	1,563	1,854	741	836	3,296
General and administrative expenses	3,925	5,048	2,046	2,716	9,278
Other expenses, net	(1)	(25)	-	-	(12)
Income (loss) from regular operations	1,705	(1,003)	1,038	(1,096)	431
Financing revenues	24	494	11	178	58
Financing expenses	(104)	(616)	(10)	(868)	(460)
Income (loss) before taxes on income	1,625	(1,125)	1,039	(1,786)	29
Tax revenues (expenses) on income	(676)	102	(382)	94	(219)
Retained earnings (loss)	949	(1,023)	657	(1,692)	(190)
<u>Net earnings (loss) per share – in NIS</u>					
Net earnings (loss) – basic and diluted	0.036	(0.04)	0.026	(0.066)	(0.01)

Consolidated statements of comprehensive income

	For the 6 months ended June 30,		For the 3 months ended June 30,		For the year ended December 31,
	2010	2009	2010	2009	2009
	Unaudited		Unaudited		Audited
	NIS thousands				
Net income (loss)	949	(1,023)	657	(1,692)	(190)
Other comprehensive income (loss):					
Adjustments resulting from translation of financial statements of foreign operations	(22)	486	251	77	228
Transfer to statement of income from realizing a loan of foreign operations	-	291	-	291	291
Other comprehensive income (loss), net	(22)	777	251	368	519
Total comprehensive income (loss)	927	(246)	908	(1,324)	329

Consolidated statements of changes in shareholders' equity

	Share capital	Premium on shares	Capital reserve from translating financial statements of foreign operations	Other capital reserves	Balance of loss	Treasury stock	Total
	Unaudited						
	NIS thousands						
<u>Balance as at January 1, 2010</u> <u>(audited)</u>	389	56,407	(2,414)	606	(36,914)	(751)	17,323
Total comprehensive income (loss)	-	-	(22)	-	949	-	927
Issue of shares from exercising option warrants	7	719	-	-	-	-	726
Cost of share-based payment	-	-	-	82	-	-	82
<u>Balance as at June 30, 2010</u>	<u>396</u>	<u>57,126</u>	<u>(2,436)</u>	<u>688</u>	<u>(37,747)</u>	<u>(751)</u>	<u>19,058</u>
<u>Balance as at January 1, 2009</u> <u>(audited)</u>	378	55,633	(2,933)	507	(36,724)	(751)	16,110
Total comprehensive loss	-	-	777	-	(1,023)	-	(246)
Issue of shares from exercising option warrants	5	282	-	-	-	-	287
Cost of share-based payment	-	-	-	51	-	-	51
	-	-	-	-	-	-	-
<u>Balance as at June 30, 2009</u>	<u>383</u>	<u>55,915</u>	<u>(2,156)</u>	<u>558</u>	<u>(37,747)</u>	<u>(751)</u>	<u>16,202</u>

Consolidated statements of changes in shareholders' equity

	Share capital	Premium on shares	Capital reserve from translating financial statements of foreign operations	Other capital reserves	Balance of loss	Treasury stock	Total
	Unaudited						
	NIS thousands						
<u>Balance as at April 1, 2010</u>	394	57,004	(2,687)	647	(36,622)	(751)	17,985
Total comprehensive income (loss)	-	-	251	-	657	-	908
Issue of shares from exercising option warrants	2	122	-	-	-	-	124
Cost of share-based payment	-	-	-	41	-	-	41
<u>Balance as at June 30, 2010</u>	<u>396</u>	<u>57,126</u>	<u>(2,436)</u>	<u>688</u>	<u>(35,965)</u>	<u>(751)</u>	<u>19,058</u>
<u>Balance as at April 1, 2009</u>							
Total comprehensive loss	378	55,633	(2,524)	533	(36,055)	(751)	17,214
Issue of shares from exercising option warrants	-	-	368	-	(1,692)	-	(1,324)
Cost of share-based payment	5	282	-	-	-	-	287
Dividend paid	-	-	-	25	-	-	25
<u>Balance as at June 30, 2009</u>	<u>383</u>	<u>55,915</u>	<u>(2,156)</u>	<u>558</u>	<u>(37,747)</u>	<u>(751)</u>	<u>16,202</u>
	Audited						
	NIS thousands						
<u>Balance as at January 1, 2009</u>	378	55,633	(2,933)	507	(36,724)	(751)	16,110
Total comprehensive loss	-	-	519	-	(190)	-	329
Issue of shares from exercising option warrants	11	774	-	-	-	-	785
Cost of share-based payment	-	-	-	99	-	-	99
<u>Balance as at December 31, 2009</u>	<u>389</u>	<u>56,407</u>	<u>(2,414)</u>	<u>606</u>	<u>(36,914)</u>	<u>(751)</u>	<u>17,323</u>

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Consolidated statement of cash flows

	For the 6 months ended June 30,		For the 3 months ended June 30,		For the year ended December 31,
	2010	2009	2010	2009	2009
	Unaudited				Audited
NIS thousands					
<u>Cash flows from operating activities</u>					
Net income (loss)	949	(1,023)	657	(1,692)	(190)
Cost of share-based payment	82	51	41	25	99
Amortization of fixed and intangible assets	547	627	268	305	1,232
Tax expense (income)	676	(102)	382	(94)	219
Change in liabilities for benefits to employees	99	29	45	58	(240)
Finance expense (income)	80	122	(1)	690	402
	<u>1,484</u>	<u>727</u>	<u>735</u>	<u>984</u>	<u>1,712</u>
Changes in items of assets and liabilities:					
(Increase) decrease in trade receivables	1,304	2,206	470	1,255	1,246
(Increase) decrease in other receivables	(237)	(122)	232	325	(33)
Increase (decrease) in trade payables	556	(601)	(80)	(647)	(634)
Increase (decrease) in other payables	(1,546)	(1,004)	(1,243)	(2,063)	(1,292)
Decrease in liabilities relating to discontinued operations		(100)	-	-	(100)
	<u>77</u>	<u>379</u>	<u>(621)</u>	<u>(1,130)</u>	<u>(813)</u>
Cash received and paid during the period					
Interest paid	(28)	(48)	(7)	(21)	(90)
Interest received	24	32	11	21	58
Tax paid	(8)	(6)	(4)	-	(24)
Tax received	-	-	-	-	416
	<u>(12)</u>	<u>(22)</u>	<u>-</u>	<u>-</u>	<u>360</u>
Net cash provided by (used for) operating activities	<u>2,498</u>	<u>61</u>	<u>771</u>	<u>(1,838)</u>	<u>1,069</u>

Consolidated statement of cash flows

	For the 6 months ended June 30,		For the 3 months ended June 30,		For the year ended December 31,
	2010	2009	2010	2009	2009
	Unaudited		Unaudited		Audited
	NIS thousands		NIS thousands		NIS thousands
<u>Cash flows from investing activities</u>					
Purchase of fixed assets	(258)	(71)	(228)	(24)	(260)
Proceeds from realizing fixed assets	-	-	-	-	-
Short-term investments, net	-	379	-	-	1
Purchase of intangible assets	(15)	-	(14)	-	(386)
Net cash provided by (used for) investing activities	(273)	308	(242)	(24)	(645)
<u>Cash flows from financing activities</u>					
Issue of share capital from exercising option warrants	726	287	124	287	785
Repayment of long-term loans to banks	(2,302)	(331)	(2,152)	(160)	(633)
Net cash provided by (used for) financing activities	(1,576)	(44)	(2,028)	127	152
<u>Rate differences on balances of cash and cash equivalents</u>	15	(193)	377	35	148
<u>Increase (decrease) in cash and cash equivalents</u>	664	132	(1,122)	(1,700)	724
<u>Balance of cash and cash equivalents at beginning of period</u>	14,463	13,739	16,249	15,571	13,739
<u>Balance of cash and cash equivalents at end of period</u>	15,127	13,871	15,127	13,871	14,463

Notes to the consolidated interim financial statements

Note 1 - General

These financial statements were prepared in a condensed format as at June 30, 2010 and for periods of six months and three months then ended (hereinafter - the interim consolidated financial statements"). These statements should be studied in correlation with the Company's annual financial statements as at December 31, 2009 and for the year then ended and the notes accompanying them (hereinafter: the annual financial statements).

Note 3 - The following are exchange rate data of the US dollar and the pound sterling

	<u>Exchange rate of 1 US dollar</u>	<u>Exchange rate of 1 pound sterling</u>
	<u>NIS</u>	<u>NIS</u>
<u>As at</u>		
June 30, 2010	3.875	5.8228
June 30, 2009	3.919	6.5089
December 31, 2009	3.775	6.1112
<u>Rate of change during the period</u>		
	<u>%</u>	<u>%</u>
June 2010 (6 months)	2.65	(4.72)
June 2009 (6 months)	3.08	17.32
June 2010 (3 months)	4.36	3.81
June 2009 (3 months)	(6.42)	8.62
December 2009 (12 months)	(0.70)	10.15

Notes to the consolidated interim financial statements

Note 4 - Operating segments

As from January 1, 2009 the Company has adopted IFRS 8 according to which the operating segments are presented according to the internal reporting format for the Company's chief operating decision maker.

a. General

The Company and the subsidiaries are engaged in the field of human resources.

The group of companies operates in three operational segments:

1. Israel
2. Europe
3. North America

The results of operations according to segments include all the costs and expenses relating directly to each segment and also the proportional charge of joint expenses between the segments.

b. Reporting relating to operational segments

	For the 6 months ended June 30, 2010				
	Israel	Europe	N. America	Adjustments	Total
	Unaudited				
	NIS thousands				
Revenues from external customers	11,288	5,956	6,415	-	23,659
Between segments	-	988	51	(1,039)	-
Total revenues	11,288	6,944	6,466	(1,039)	23,659
Results of the segment	418	704	1,934	-	3,056
Expenses not allocated to segments					(1,367)
Profits from regular operations					1,705

	For the 6 months ended June 30, 2009				
	Israel	Europe	N. America	Adjustments	Total
	Unaudited				
	NIS thousands				
Revenues from external customers	10,180	6,948	6,383	-	23,511
Between segments	-	514	289	(803)	-
Total revenues	10,180	7,462	6,672	(803)	23,511
Results of the segment	(333)	(53)	750	-	364
Expenses not allocated to segments					(1,367)
Loss from regular activities					(1,003)

Pilat Technologies International Ltd.

Notes to the consolidated interim financial statements

Note 5 - Operational segments – contd.

	For the 3 months ended June 30, 2010				
	Israel	Europe	N. America	Adjustments	Total
	Unaudited				
NIS thousands					
Revenues from external customers	5,652	2,994	3,372	-	12,018
Between segments	-	510	5	(515)	-
Total revenues	5,652	3,504	3,377	(515)	12,012
Results of the segment	95	547	1,082	-	1,724
Expenses not allocated to segments					(686)
Loss from regular operations					1,038
	For the 3 months ended June 30, 2009				
	Israel	Europe	N. America	Adjustments	Total
	Unaudited				
NIS thousands					
Revenues from external customers	4,894	3,209	3,145	-	11,248
Between segments	-	274	135	(409)	-
Total revenues	4,894	3,483	3,280	(409)	11,248
Results of the segment	(423)	(289)	359	-	(353)
Expenses not allocated to segments					(743)
Loss from regular operations					(1,096)
	For the year ended December 31, 2009				
	Israel	Europe	N. America	Adjustments	Total
	Unaudited				
NIS thousands					
Revenues from external customers	21,059	12,720	13,012	-	46,791
Between segments	-	1,502	372	(1,874)	-
Total revenues	21,059	14,222	13,384	(1,874)	46,791
Results of the segment	417	232	2,649	-	3,298
Expenses not allocated to segments					(2,867)
Profit from regular operations					431

Notes to the consolidated interim financial statements

Note 6 - Significant events after the balance sheet date

1. On the 28th June, 2010 various shareholders who were interested parties under the Israeli Securities Regulations, sold their shares. Amongst those sellers, is Mr. Michael Zuckerman the CEO and Chairman of the Company. Mr. Zuckerman will continue to act as the CEO and Chairman of the board until the 1st September, 2010 and then he will retire from all positions in the Company.
2. During the reporting period, 714,666 options were exercised to shares of NIS 0.01 each by employees of the Company's foreign subsidiaries.
3. After the balance sheet date a further 20,758 options were exercised by an employee of the Company's Israeli subsidiary.