

FORMULA SYSTEMS (1985) LTD.
(An Israeli corporation)
CONSOLIDATED BALANCE SHEETS

| | June 30, 2007 (Unaudited) | December 31, 2006 |
|--|--|------------------------------|
| | U.S. \$ | |
| | (in thousands) | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 141,127 | 104,775 |
| Short-term investments | 9,403 | 11,385 |
| Marketable securities available for sale | 4,029 | 3,646 |
| Trade receivables | 128,896 | 120,939 |
| Other accounts receivable | 20,405 | 17,998 |
| Inventories | 3,090 | 3,080 |
| | <u>306,950</u> | <u>261,823</u> |
| LONG-TERM INVESTMENTS, LOANS AND RECEIVABLES: | | |
| Loans and other investments | 4,697 | 3,915 |
| Investments in affiliates | 3,614 | 720 |
| | <u>8,311</u> | <u>4,635</u> |
| SEVERANCE PAY FUND | <u>30,791</u> | <u>29,962</u> |
| FIXED ASSETS, NET | <u>15,635</u> | <u>16,311</u> |
| OTHER ASSETS, NET | <u>154,350</u> | <u>147,753</u> |
| TOTAL ASSETS ATTRIBUTED TO DISCONTINUED OPERATIONS ... | <u>-</u> | <u>135,021</u> |
| | <u>516,037</u> | <u>595,504</u> |
| CURRENT LIABILITIES: | | |
| Liabilities to banks and others | 28,401 | 40,414 |
| Trade payables | 52,593 | 50,157 |
| Other accounts payable | 71,512 | 59,056 |
| Debentures | 3,671 | 4,450 |
| | <u>156,177</u> | <u>154,077</u> |
| LONG-TERM LIABILITIES: | | |
| Debentures | 8,697 | 10,802 |
| Unrealized Gain | 77 | - |
| Deferred taxes | 117 | 457 |
| Customer advances | 1,356 | 449 |
| Liabilities to banks and others | 42,283 | 59,268 |
| Liability in respect of the acquisition of activities | 1,417 | 1,489 |
| Accrued severance pay | 36,576 | 35,340 |
| | <u>90,523</u> | <u>107,805</u> |
| TOTAL LIABILITIES ATTRIBUTED TO DISCONTINUED OPERATIONS | <u>-</u> | <u>104,951</u> |
| MINORITY INTEREST | <u>90,557</u> | <u>85,066</u> |
| SHAREHOLDERS' EQUITY | <u>178,780</u> | <u>153,290</u> |
| | <u>516,037</u> | <u>595,504</u> |

FORMULA SYSTEMS (1985) LTD.
(An Israeli corporation)
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

| | Six months ended | | Three months ended | |
|--|---------------------------------------|----------------|--------------------|----------------|
| | June 30, | | June 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| | U.S.\$ | | U.S.\$ | |
| | (in thousands, except per share data) | | | |
| Revenues..... | 240,809 | 201,986 | 124,738 | 104,618 |
| Cost of revenues..... | <u>179,256</u> | <u>147,398</u> | <u>93,618</u> | <u>77,450</u> |
| Gross profit | 61,553 | 54,588 | 31,120 | 27,168 |
| Research and development costs, net..... | 3,265 | 3,382 | 1,613 | 1,607 |
| Selling, general and administrative expenses..... | 42,888 | 43,249 | 21,860 | 21,788 |
| Depreciation and amortization | 1,689 | 2,071 | 835 | 1,007 |
| Restructuring and non-recurring costs | <u>210</u> | <u>656</u> | <u>81</u> | <u>21</u> |
| Operating income..... | 13,501 | 5,230 | 6,731 | 2745 |
| Financial income(expenses), net | <u>(384)</u> | <u>(1,570)</u> | <u>196</u> | <u>(687)</u> |
| | 13,117 | 3,660 | 6,927 | 2,058 |
| Gain on realization of investments..... | 1,200 | 2,189 | 1,136 | 2,308 |
| Other income (expenses), net..... | <u>(435)</u> | <u>(730)</u> | <u>(194)</u> | <u>(680)</u> |
| Income before taxes on income | 13,882 | 5,119 | 7,869 | 3,686 |
| Taxes on income | <u>1,062</u> | <u>2,040</u> | <u>306</u> | <u>1,151</u> |
| | 12,820 | 3,079 | 7,563 | 2,535 |
| Equity in profits (losses) of affiliated companies, net..... | (364) | 99 | (213) | 12 |
| Minority interest in losses (profits), net | <u>(5,354)</u> | <u>(2,168)</u> | <u>(2,734)</u> | <u>(1,132)</u> |
| Income from continuing operation..... | 7,102 | 1,010 | 4,616 | 1,415 |
| Income (loss) from discontinued operations | <u>18,102</u> | <u>3,629</u> | <u>17,733</u> | <u>(913)</u> |
| Net income | <u>25,204</u> | <u>4,639</u> | <u>22,349</u> | <u>502</u> |
| Earnings per share generated from continued operation : | | | | |
| Basic | 0.55 | 0.09 | 0.36 | 0.13 |
| Diluted | 0.54 | 0.08 | 0.35 | 0.12 |
| Earnings per share generated from discontinuing operation : | | | | |
| Basic | 1.37 | 0.25 | 1.34 | (0.09) |
| Diluted | 1.37 | 0.23 | 1.34 | (0.09) |
| Weighted average number of shares outstanding: | | | | |
| Basic | 13,200 | 13,200 | 13,200 | 13,200 |
| Diluted | <u>13,200</u> | <u>13,200</u> | <u>13,200</u> | <u>13,200</u> |