

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

	December 31, 2006	December 31, 2005
	U.S. \$	
	(in thousands)	
CURRENT ASSETS:		
Cash and cash equivalents.....	118,910	81,767
Short-term investments.....	12,438	36,185
Marketable securities available for sale.....	3,646	-
Trade receivables.....	147,478	133,390
Other accounts receivable.....	22,651	24,770
Inventories.....	3,080	3,808
	<u>308,203</u>	<u>279,920</u>
LONG-TERM INVESTMENTS, LOANS AND RECEIVABLES:		
Loans and other investments.....	1,960	3,091
Investments in affiliates.....	-	20,257
	<u>1,960</u>	<u>23,348</u>
SEVERANCE PAY FUND	<u>28,239</u>	<u>33,627</u>
FIXED ASSETS, NET	<u>18,461</u>	<u>23,485</u>
OTHER ASSETS, NET	<u>232,954</u>	<u>269,705</u>
	<u>589,817</u>	<u>630,085</u>
CURRENT LIABILITIES:		
Liabilities to banks and others.....	35,579	105,420
Trade payables.....	54,191	47,534
Other accounts payable.....	73,865	74,765
Debentures.....	8,932	8,004
Customer advances, net of work in progress.....		7,309
	<u>172,567</u>	<u>243,032</u>
LONG-TERM LIABILITIES:		
Debentures.....	24,113	16,809
Provision for losses in formerly owned investee.....	1,971	1,971
Deferred taxes.....	457	1,282
Customer advances.....	449	645
Liabilities to banks and others.....	85,004	52,732
Liability in respect of the acquisition of activities.....	1,489	1,761
Accrued severance pay.....	35,337	39,727
	<u>148,820</u>	<u>114,927</u>
MINORITY INTEREST	<u>115,140</u>	<u>108,681</u>
SHAREHOLDERS' EQUITY	<u>153,290</u>	<u>163,445</u>
	<u>589,817</u>	<u>630,085</u>

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

	Twelve months ended		Three months ended	
	December 31,		December 31,	
	2006	2005	2006	2005
	U.S.\$		U.S.\$	
	(in thousands, except per share data)			
Revenues.....	560,226	506,371	152,542	124,824
Cost of revenues.....	376,292	333,536	100,015	83,355
Gross profit.....	183,934	172,835	52,527	41,469
Research and development costs, net.....	25,483	22,429	5,856	4,789
Selling, general and administrative expenses.....	134,653	127,520	35,522	32,417
Depreciation and amortization	6,056	5,529	1,631	1,387
Restructuring and non-recurring costs.....	3,410	1,455	628	343
Operating income.....	14,332	15,902	8,890	2,533
Financial expenses, net	12,228	9,206	3,578	2,270
	2,104	6,696	5,312	263
Gain on realization of investments	40,009	4,107	25,710	(88)
Other income (expenses), net	(15,800)	(820)	(13,073)	(1,371)
Income before taxes on income.....	26,313	9,983	17,949	(1,196)
Taxes on income	3,234	5,200	2,291	2,237
	23,079	4,783	15,658	(3,433)
Equity in profits (losses) of affiliated companies, net	459	(3,109)	(631)	(511)
Minority interest in losses (profits), net	13,523	1,491	8,663	(1,261)
Net income (loss)	10,015	183	6,364	(2,683)
Earnings (loss) per share:				
Basic.....	0.802	0.01	0.511	(0.21)
Diluted.....	0.737	0.01	0.501	(0.21)
Weighted average number of shares outstanding:				
Basic.....	13,200	12,800	13,200	13,200
Diluted.....	13,298	12,800	13,200	13,200