

TEFEN - INDUSTRIAL ENG. MANAGEMENT & SYSTEM ANALYSIS LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008

INDEX

	<u>Page</u>
Auditors' Report	2
Consolidated Balance Sheets	3 - 4
Consolidated Statements of Income	5
Consolidated Statements of Changes in Equity	6 - 7
Consolidated Statements of Cash Flows	8 - 9

To the shareholders of
Tefen - Industrial Eng. Management & System Analysis Ltd.

We have audited, in accordance with generally accepted auditing standards in Israel, the accompanying consolidated balance sheets of Tefen - Industrial Eng. Management & System Analysis Ltd. ("the Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in equity and cash flows for each of the years then ended.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 17% and 73% of total consolidated assets as of December 31, 2008 and 2007, respectively, and whose revenues constitute approximately 26% and 70% of total consolidated revenues for the years then ended, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

Based on our audits and the reports of other auditors, in our report dated March 19, 2009, we expressed an unqualified opinion on the abovementioned financial statements.

The accompanying financial statements which are derived from the abovementioned financial statements are condensed financial statements and do not include disclosures required by International Financial Reporting Standards ("IFRS") and the provisions of the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the consolidated financial position, results of operations and cash flows of the Company and subsidiaries. Accordingly, the accompanying financial statements are not designed for those who are not informed about such matters.

Tel-Aviv, Israel
March 19, 2009

Kost Forer Gabbay and Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2008	2007
	NIS in thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	8,627	8,445
Short-term investments	15,314	17,442
Trade receivables	35,036	47,294
Other accounts receivable	4,030	3,340
Government authorities	6,350	2,132
Associate	25	181
	69,382	78,834
NON-CURRENT ASSETS:		
Deposit held in trust	872	1,099
Long-term deposit	1,807	1,465
Fixed assets	8,231	7,673
Goodwill and other intangible assets	34,080	40,714
Deferred taxes	6,745	7,334
	51,735	58,285
	121,117	137,119

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2008	2007
	NIS in thousands	
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Credit from banks	19,567	20,188
Trade payables	4,392	7,323
Other accounts payable	22,640	31,138
Customer advances	2,001	1,994
	<u>48,600</u>	<u>60,643</u>
LONG-TERM LIABILITIES:		
Loans from banks	17,261	15,809
Employee benefit liabilities	8,012	6,596
Contingent consideration for acquisition of subsidiaries	3,411	10,759
Deferred taxes	3,253	2,983
	<u>31,937</u>	<u>36,147</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:		
Share capital	4,369	4,369
Share premium	24,882	24,882
Capital reserve from share-based payment	1,104	1,212
Capital reserve from currency translation	(6,330)	(3,941)
Retained earnings	17,307	14,597
Less - loan given to employees to purchase Company's shares	(42)	(80)
Treasury shares	(710)	(710)
	<u>40,580</u>	<u>40,329</u>
<u>Total equity</u>	<u>121,117</u>	<u>137,119</u>

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,	
	2008	2007
	NIS in thousands (except per share data)	
Revenues	151,427	161,320
Cost of revenues	110,093	118,691
Gross profit	41,334	42,629
Selling and marketing expenses	10,043	11,755
General and administrative expenses	23,296	20,388
Other income (expenses), net	(1,114)	2,284
Operating income	6,881	12,770
Financial income	1,370	1,790
Financial expenses	(4,683)	(2,377)
Company's share of losses of associate	(26)	(823)
Income before taxes on income	3,542	11,360
Taxes on income	832	4,668
Net income	2,710	6,692
Net earnings per share attributable to equity holders of the Company (in NIS)	1.02	2.55
Number of shares used in the calculation of net earnings per share	2,638,816	2,638,816

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							Total
	Share capital	Share premium	Capital reserve from share-based payment	Capital reserve from currency translation	Retained earnings	Less - loan given to employees to purchase Company's shares	Treasury shares	
	NIS in thousands							
Balance at January 1, 2007	4,369	24,882	940	-	15,176	(84)	(710)	44,573
Currency translation adjustment of foreign operations	-	-	-	(3,941)	-	-	-	(3,941)
Total expenses recognized directly in equity	-	-	-	(3,941)	-	-	-	(3,941)
Net income	-	-	-	-	6,692	-	-	6,692
Total recognized income (expenses)	-	-	-	(3,941)	6,692	-	-	2,751
Cost of share-based payment	-	-	272	-	-	4	-	276
Dividend paid	-	-	-	-	(7,271)	-	-	(7,271)
Balance at December 31, 2007	4,369	24,882	1,212	(3,941)	14,597	(80)	(710)	40,329

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							Total
	Share capital	Share premium	Capital reserve from share-based payment	Capital reserve from currency translation	Retained earnings	Less - loan given to employees to purchase Company's shares	Treasury shares	
	NIS in thousands							
Balance at January 1, 2008	4,369	24,882	1,212	(3,941)	14,597	(80)	(710)	40,329
Currency translation adjustment of foreign operations	-	-	-	(2,389)	-	-	-	(2,389)
Total expenses recognized directly in equity	-	-	-	(2,389)	-	-	-	(2,389)
Net income	-	-	-	-	2,710	-	-	2,710
Total recognized income (expenses)	-	-	-	(2,389)	2,710	-	-	321
Cost of share-based payment	-	-	(108)	-	-	38	-	(70)
Balance at December 31, 2008	4,369	24,882	1,104	(6,330)	17,307	(42)	(710)	40,580

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2008	2007
	NIS in thousands	
<u>Cash flows from operating activities:</u>		
Net income	2,710	6,692
Adjustment to reconcile net income to net cash provided by operating activities (a)	3,341	983
Net cash provided by operating activities	6,051	7,675
<u>Cash flows from investing activities:</u>		
Purchase of fixed assets	(4,128)	(4,738)
Payment of contingent consideration for business combination and software	(6,001)	(550)
Investment in long-term deposit	(597)	(1,546)
Release of (investment in) trust deposit	77	(981)
Withdrawal of (investment in) bank deposits, net	554	(4,828)
Loans to associate	(113)	(1,004)
Proceeds from sale of fixed assets	701	891
Long-term loans given to employees	(44)	(62)
Collection of long-term loans from employees	26	99
Acquisition of newly consolidated subsidiaries (b)	-	(15,668)
Net cash used in investing activities	(9,525)	(28,383)
<u>Cash flows from financing activities:</u>		
Collection of loan given to employees to purchase Company's shares	38	4
Receipt of long-term loans	11,960	20,525
Repayment of long-term loans	(6,847)	(2,926)
Dividend paid	-	(7,271)
Short-term credit from banks, net	(897)	6,283
Net cash provided by financing activities	4,254	16,615
Translation differences on cash balances of foreign operations	(598)	(687)
Increase (decrease) in cash and cash equivalents	182	(4,780)
Cash and cash equivalents at beginning of year	8,445	13,225
Cash and cash equivalents at end of year	8,627	8,445

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2008	2007
	NIS in thousands	
(a) <u>Adjustments to reconcile net income to net cash provided by operating activities:</u>		
Income and expenses not involving cash flows:		
Correction of goodwill after recognition of deferred tax asset	740	-
Impairment of associate	243	-
Revaluation of trust deposit	(53)	-
Revaluation of contingent consideration for acquisition of subsidiaries	823	579
Depreciation and amortization	4,381	4,130
Capital loss (gain) from sale of fixed assets	131	(32)
Decrease (increase) in value of marketable securities at fair value through profit or loss	1,357	(297)
Company's share of losses of associate	26	823
Change in employee benefit liabilities, net	1,517	1,229
Deferred taxes, net	(71)	(919)
Cost of share-based payment	(108)	276
	<u>8,986</u>	<u>5,789</u>
Changes in asset and liability items:		
Decrease in trade receivables	9,069	2,912
Increase in other accounts receivable and associate	(5,480)	(1,601)
Increase (decrease) in trade payables	(2,491)	807
Decrease in other accounts payable	(6,743)	(6,924)
	<u>(5,645)</u>	<u>(4,806)</u>
	<u>3,341</u>	<u>983</u>
(b) <u>Acquisition of newly consolidated subsidiaries:</u>		
Assets and liabilities at date of acquisition:		
Working capital (excluding cash and cash equivalents)	-	(6,624)
Deferred taxes	-	(2,969)
Fixed assets, net	-	951
Customer base, net	-	19,576
Goodwill arising on acquisition	-	17,726
Liabilities for contingent consideration	-	(12,992)
	<u>-</u>	<u>15,668</u>
(c) <u>Additional cash flow information:</u>		
Cash paid during the year for:		
Interest	2,415	846
Dividend	-	7,271
Taxes on income	2,878	3,419
Cash received during the year for:		
Interest	712	690
Dividend	-	60