

TEFEN - INDUSTRIAL ENG. MANAGEMENT & SYSTEM ANALYSIS LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2009

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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, 2009 and 2008, 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 3% and 17% of total consolidated assets as of December 31, 2009 and 2008, respectively, and whose revenues constitute approximately 15% and 26% 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 23, 2010, 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), 2010. 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 23, 2010

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

| | December 31, | |
|----------------------------|------------------|---------|
| | 2009 | 2008 |
| | NIS in thousands | |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 7,016 | 8,627 |
| Short-term investments | 11,133 | 15,314 |
| Trade receivables | 25,211 | 35,036 |
| Other accounts receivable | 2,390 | 4,030 |
| Income tax authorities | 3,394 | 6,350 |
| Deposit held in trust | 1,535 | - |
| Associate | - | 25 |
| | 50,679 | 69,382 |
| NON-CURRENT ASSETS: | | |
| Deposit held in trust | - | 872 |
| Deposit | 1,857 | 1,807 |
| Fixed assets | 6,908 | 8,231 |
| Goodwill | 25,980 | 26,605 |
| Other intangible assets | 6,118 | 7,475 |
| Deferred taxes | 7,737 | 6,745 |
| | 48,600 | 51,735 |
| | 99,279 | 121,117 |

CONSOLIDATED BALANCE SHEETS

| | December 31, | |
|--|------------------|----------------|
| | 2009 | 2008 |
| | NIS in thousands | |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES: | | |
| Credit from banks | 25,403 | 19,567 |
| Trade payables | 3,140 | 4,392 |
| Other accounts payable | 12,450 | 21,692 |
| Customer advances | 1,091 | 2,001 |
| | <u>42,084</u> | <u>47,652</u> |
| LONG-TERM LIABILITIES: | | |
| Loans from banks | 11,713 | 17,261 |
| Long-term payable due to rent | 1,172 | 948 |
| Employee benefit liabilities | 9,065 | 8,012 |
| Contingent consideration for acquisition of subsidiaries | - | 3,411 |
| Deferred taxes | 2,552 | 3,253 |
| | <u>24,502</u> | <u>32,885</u> |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY: | | |
| Share capital | 4,369 | 4,369 |
| Share premium | 24,882 | 24,882 |
| Treasury shares | (710) | (710) |
| Capital reserve from share-based payment | 1,148 | 1,104 |
| Retained earnings | 8,610 | 17,307 |
| Capital reserve from currency translation | (5,569) | (6,330) |
| Less - loan given to employees to purchase Company's shares | (37) | (42) |
| | <u>32,693</u> | <u>40,580</u> |
| <u>Total equity</u> | <u>99,279</u> | <u>121,117</u> |

CONSOLIDATED STATEMENTS OF INCOME

| | Year ended December 31, | | |
|--|--|-----------|-----------|
| | 2009 | 2008 | 2007 |
| | NIS in thousands (except per share data) | | |
| Revenues | 96,963 | 151,427 | 161,320 |
| Operating expenses | 78,665 | 110,093 | 118,691 |
| Gross profit | 18,298 | 41,334 | 42,629 |
| Selling and marketing expenses | 7,311 | 10,043 | 11,755 |
| General and administrative expenses | 19,677 | 23,296 | 20,388 |
| Other income (expenses), net | 149 | (1,114) | 2,284 |
| Operating income (loss) | (8,541) | 6,881 | 12,770 |
| Financial income | 1,097 | 1,370 | 1,790 |
| Financial expenses | (2,221) | (4,683) | (2,377) |
| Company's share of losses of associate | - | (26) | (823) |
| Income (loss) before taxes on income | (9,665) | 3,542 | 11,360 |
| Taxes on income | (968) | 832 | 4,668 |
| Net income (loss) | (8,697) | 2,710 | 6,692 |
| Net earnings (loss) per share attributable to equity holders of the Company (in NIS) | (3.30) | 1.02 | 2.55 |
| Number of shares used in the calculation of net earnings per share | 2,638,816 | 2,638,816 | 2,638,816 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Year ended December 31, | | |
|---|---|----------------|----------------|
| | 2009 | 2008 | 2007 |
| | NIS in thousands (except per share data) | | |
| Net income (loss) | (8,697) | 2,710 | 6,692 |
| <u>Total</u> other comprehensive income (loss) (net of tax effect): | | | |
| Exchange differences on translation of foreign operations | <u>761</u> | <u>(2,389)</u> | <u>(3,941)</u> |
| <u>Total</u> comprehensive income (loss) | <u>(7,936)</u> | <u>321</u> | <u>2,751</u> |

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Attributable to equity holders of the Company | | | | | | | Total |
|-----------------------------------|---|---------------|-----------------|--|-------------------|---|--------------------------------------|---------|
| | Share capital | Share premium | Treasury shares | Capital reserve from share-based payment | Retained earnings | Less - loan given to employees to purchase Company's shares | Foreign currency translation reserve | |
| | NIS in thousands | | | | | | | |
| Balance at January 1, 2007 | 4,369 | 24,882 | (710) | 940 | 15,176 | (84) | - | 44,573 |
| Total comprehensive income | - | - | - | - | 6,692 | - | (3,941) | 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 | (710) | 1,212 | 14,597 | (80) | (3,941) | 40,329 |
| Total comprehensive income | - | - | - | - | 2,710 | - | (2,389) | 321 |
| Cost of share-based payment | - | - | - | (108) | - | 38 | - | (70) |
| Balance at December 31, 2007 | 4,369 | 24,882 | (710) | 1,104 | 17,307 | (42) | (6,330) | 40,580 |
| Total comprehensive income (loss) | - | - | - | - | (8,697) | - | 761 | (7,936) |
| Cost of share-based payment | - | - | - | 44 | - | 5 | - | 49 |
| Balance at December 31, 2009 | 4,369 | 24,882 | (710) | 1,148 | 8,610 | (37) | (5,569) | 32,693 |

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended December 31, | | |
|--|-------------------------|----------------|----------------|
| | 2009 | 2008 | 2007 |
| | NIS in thousands | | |
| <u>Cash flows from operating activities:</u> | | | |
| Net income (loss) | (8,697) | 2,710 | 6,692 |
| Adjustment to reconcile net income (loss) to net cash provided by operating activities (a) | | | |
| Income and expenses not involving cash flows: | | | |
| Correction of goodwill after recognition of deferred tax asset | - | 740 | - |
| Impairment of associate | 25 | 243 | - |
| Revaluation of trust deposit and long-term deposit | (18) | (53) | - |
| Revaluation of contingent consideration for acquisition of subsidiaries | (46) | 823 | 579 |
| Depreciation and amortization | 4,531 | 4,381 | 4,130 |
| Capital loss (gain) from sale of fixed assets | 38 | 131 | (32) |
| Decrease (increase) in value of marketable securities at fair value through profit or loss | (143) | 1,357 | (297) |
| Company's share of losses of associate | - | 26 | 823 |
| Change in employee benefit liabilities, net | 1,016 | 1,517 | 1,229 |
| Cost of share-based payment | 44 | (108) | 276 |
| Taxes on income | (968) | 832 | 4,668 |
| Financial expenses, net | 1,164 | 1,703 | 156 |
| | <u>5,643</u> | <u>11,592</u> | <u>11,532</u> |
| Changes in asset and liability items: | | | |
| Decrease in trade receivables | 10,273 | 9,069 | 2,912 |
| Decrease (increase) in other accounts receivable | 3,708 | (5,480) | (2,706) |
| Decrease in trade payables | (1,310) | (2,491) | (316) |
| Decrease in other accounts payable | (7,684) | (4,768) | (6,924) |
| | <u>4,987</u> | <u>(3,670)</u> | <u>(7,034)</u> |
| Cash paid and received during the year for: | | | |
| Interest paid | (1,726) | (2,415) | (846) |
| Interest received | 562 | 712 | 690 |
| Taxes paid | (2,636) | (3,555) | (3,419) |
| Taxes received | 2,643 | 677 | - |
| Dividend received | - | - | 60 |
| | <u>(1,157)</u> | <u>(4,581)</u> | <u>(3,515)</u> |
| Net cash provided by operating activities | <u>776</u> | <u>6,051</u> | <u>7,675</u> |

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended December 31, | | |
|--|-------------------------|---------------------|---------------------|
| | 2009 | 2008 | 2007 |
| | NIS in thousands | | |
| <u>Cash flows from investing activities:</u> | | | |
| Purchase of fixed assets | (1,246) | (4,128) | (4,738) |
| Purchase of intangible assets | (355) | - | - |
| Payment of contingent consideration for business combination | (4,444) | (6,001) | (550) |
| Withdrawal of (investment in) long-term deposit | 33 | (597) | (1,546) |
| Release of (investment in) trust deposit | (653) | 77 | (981) |
| Withdrawal of (investment in) bank deposits, net | 4,322 | 554 | (4,828) |
| Loans to associate | - | (113) | (1,004) |
| Proceeds from sale of fixed assets | 352 | 701 | 891 |
| Long-term loans given to employees | (52) | (44) | (62) |
| Collection of long-term loans from employees | 164 | 26 | 99 |
| Acquisition of newly consolidated subsidiaries (a) | - | - | (15,668) |
| Net cash used in investing activities | <u>(1,879)</u> | <u>(9,525)</u> | <u>(28,387)</u> |
| <u>Cash flows from financing activities:</u> | | | |
| Collection of loan given to employees to purchase Company's shares | 5 | 38 | 4 |
| Receipt of long-term loans | - | 11,960 | 20,525 |
| Repayment of long-term loans | (6,749) | (6,847) | (2,926) |
| Dividend paid | - | - | (7,271) |
| Short-term credit from banks, net | 6,438 | (897) | 6,283 |
| Net cash provided by (used in) financing activities | <u>(306)</u> | <u>4,254</u> | <u>16,615</u> |
| Translation differences on cash balances of foreign operations | <u>(202)</u> | <u>(598)</u> | <u>(683)</u> |
| Increase (decrease) in cash and cash equivalents | (1,611) | 182 | (4,780) |
| Cash and cash equivalents at beginning of year | <u>8,627</u> | <u>8,445</u> | <u>13,225</u> |
| Cash and cash equivalents at end of year | <u><u>7,016</u></u> | <u><u>8,627</u></u> | <u><u>8,445</u></u> |

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended December 31, | | |
|--|-------------------------|------|----------|
| | 2009 | 2008 | 2007 |
| | NIS in thousands | | |
| (a) <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) |
| | - | - | 15,668 |
| | - | - | 15,668 |

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