UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the month of **March 2019**

Commission File Number: 000-29442

FORMULA SYSTEMS (1985) LTD.
(Translation of registrant's name into English)

5 HaPlada Street, Or-Yehuda, Israel
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

CONTENTS

Financial Results- Nine Months Ended September 30, 2018

Formula Systems (1985) Ltd. ("**Formula**") hereby furnishes to the Securities and Exchange Commission (the "**SEC**") the following documentation concerning its financial condition and results of operations as of, and for the three and nine month periods ended, September 30, 2018:

(i) Unaudited condensed interim consolidated financial statements of Formula as of, and for the three and nine-month periods ended, September 30, 2018;

(ii) Management's Discussion and Analysis of Financial Condition and Results of Operations with respect to the nine-month period ended September 30, 2018; and

(iii) Interactive Data File disclosure for the foregoing unaudited condensed interim consolidated financial statements, in accordance with Rule 405 of Regulation S-T promulgated by the SEC.

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

The following exhibits are furnished as Exhibits 99.1, 99.2 and 101 to this Report of Foreign Private Issuer on Form 6-K:

Exhibit Number	**Description**
99.1	Unaudited condensed interim consolidated financial statements of Formula as of, and for the three and nine month periods ended, September 30, 2018
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations of Formula with respect to the nine month period ended September 30, 2018
101	The following financial information from Exhibit 99.1 to this Form 6-K, formatted in Extensible Business Reporting Language (XBRL):
	(i) Interim Condensed Consolidated Statements of Financial Position as of December 31, 2017 and September 30, 2018 (Unaudited);
	(ii) Interim Condensed Consolidated Statements of Profit or Loss for the three and nine months ended September 30, 2017 and 2018 (Unaudited) and for the year ended December 31, 2017;
	(iii) Interim Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2017 and 2018 (Unaudited) and for the year ended December 31, 2017;
	(iv) Interim Condensed Statements of Changes in Equity for the nine months ended September 30, 2017 and 2018 (Unaudited);
	(v) Interim Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2018 (Unaudited) and for the year ended December 31, 2017; and
	(vi) Notes to the Interim Condensed Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FORMULA SYSTEMS (1985) LTD.

Date: March 7, 2019

By: /s/ Asaf Berenstin
Name: Asaf Berenstin
Title: Chief Financial Officer

Exhibit Index

Exhibit Number	Description
99.1	Unaudited condensed interim consolidated financial statements of Formula Systems (1985) Ltd. ("**Formula**") as of, and for the three and nine month periods ended, September 30, 2018
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations of Formula with respect to the nine month period ended September 30, 2018
101	The following financial information with respect to Formula from Exhibit 99.1 to this Form 6-K, formatted in Extensible Business Reporting Language (XBRL):
	(i) Interim Condensed Consolidated Statements of Financial Position as of December 31, 2017 and September 30, 2018 (Unaudited);
	(ii) Interim Condensed Consolidated Statements of Profit or Loss for the three and nine months ended September 30, 2017 and 2018 (Unaudited) and for the year ended December 31, 2017;
	(iii) Interim Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2017 and 2018 (Unaudited) and for the year ended December 31, 2017;
	(iv) Interim Condensed Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2017 and 2018 (Unaudited);
	(v) Interim Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2018 (Unaudited) and for the year ended December 31, 2017; and
	(vi) Notes to the Interim Condensed Consolidated Financial Statements.

FORMULA SYSTEMS (1985) LTD. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2018

U.S. DOLLARS IN THOUSANDS

UNAUDITED

INDEX

\- - - - - - - - - - - - - - - - - -

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	September 30, 2018 Unaudited	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 271,764	$ 245,947
Short-term deposits	12	735
Marketable securities	11,919	14,138
Trade receivables (net of allowances for doubtful accounts of $6,445 and $6,051 as of September 30, 2018 and December 31, 2017, respectively)	416,587	385,778
Prepaid expenses and other accounts receivable	48,628	44,904
Inventories	3,845	3,299
Total current assets	752,755	694,801
LONG-TERM ASSETS:		
Deferred taxes	14,478	15,878
Prepaid expenses and other accounts receivable	20,528	16,581
Total long-term assets	35,006	32,459
INVESTMENTS IN COMPANIES ACCOUNTED FOR AT EQUITY METHOD	25,242	25,315
PROPERTY, PLANTS AND EQUIPMENT, NET	29,733	29,807
INTANGIBLE ASSETS, NET	158,360	163,983
GOODWILL	637,477	617,272
Total assets	$ 1,638,573	$ 1,563,637

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands (except share and per share data)

	September 30, 2018 Unaudited	December 31, 2017
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Liabilities to banks and others	$ 128,485	$ 70,819
Debentures	54,798	4,826
Trade payables	95,793	95,339
Deferred revenue and customer advances	59,212	58,905
Employees and payroll accrual	97,756	111,707
Other accounts payable	60,238	53,145
Liabilities in respect of business combinations	5,485	6,811
Redeemable non-controlling interests	37,660	31,395
Total current liabilities	539,427	432,947
LONG-TERM LIABILITIES:		
Liabilities to banks and others	89,058	135,616
Debentures, net of current maturities	116,448	133,739
Other long term liabilities	7,447	7,244
Deferred taxes	35,759	36,605
Deferred revenues	5,328	9,340
Liability in respect of business combinations	8,439	4,711
Redeemable non-controlling interests	21,769	21,481
Employee benefit liabilities	8,885	9,032
Total long-term liabilities	293,133	357,768
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Formula's shareholders' equity:		
Share capital:		
Ordinary shares of NIS 1 par value -		
Authorized: 25,000,000 shares at September 30, 2018 and December 31, 2017;		
Issued: 15,308,381 and 15,307,402 at September 30, 2018 and December 31, 2017, respectively; Outstanding: 14,739,761 and 14,738,782 at September 30, 2018 and December 31, 2017, respectively	4,187	4,187
Additional paid-in capital	99,733	98,040
Retained earnings	256,671	239,156
Accumulated other comprehensive income	9,016	18,078
Treasury shares (568,620 shares as of September 30, 2018 and December 31, 2017, respectively)	(259)	(259)
Total equity attributable to Formula's shareholders	369,348	359,202
Non-controlling interests	436,665	413,720
Total equity	806,013	772,922
Total liabilities, redeemable non-controlling interest and equity	$ 1,638,573	$ 1,563,637

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

U.S. dollars in thousands (except share and per share data)

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited		Unaudited		
Revenues:					
Proprietary software products and related services	$ 272,400	$ 250,704	$ 91,558	$ 90,358	$ 341,350
Software services	826,888	737,896	270,872	258,271	1,013,789
Total revenues	**1,099,288**	**988,600**	**362,430**	**348,629**	**1,355,139**
Cost of revenues:					
Proprietary software products and related services	154,644	149,075	51,903	52,716	201,302
Software services	700,212	623,513	230,337	218,718	857,014
Total cost of revenues	**854,856**	**772,588**	**282,240**	**271,434**	**1,058,316**
Gross profit	**244,432**	**216,012**	**80,190**	**77,195**	**296,823**
Research and development expenses, net	31,339	29,459	9,891	10,076	39,853
Selling, marketing, general and administrative expenses	135,954	133,529	43,739	45,209	184,424
Other income	-	-	-	-	308
Operating income	**77,139**	**53,024**	**26,560**	**21,910**	**72,854**
Financial expenses	(9,106)	(17,279)	(4,409)	(3,593)	(21,773)
Financial income	1,740	239	304	(12)	606
Group's share of profits (losses) of companies accounted for at equity, net	(66)	517	(3)	107	1,124
Income before taxes on income	**69,707**	**36,501**	**22,452**	**18,412**	**52,811**
Taxes on income	16,020	11,834	4,297	5,504	13,371
Net income	**$ 53,687**	**$ 24,667**	**$ 18,155**	**$ 12,908**	**$ 39,440**
Attributable to:					
Equity holders of the Company	21,630	5,754	6,780	4,955	10,352
Redeemable non-controlling interests	4,702	2,104	1,591	928	3,671
Non-controlling interests	27,355	16,809	9,784	7,025	25,417
	$ 53,687	**$ 24,667**	**$ 18,155**	**$ 12,908**	**$ 39,440**
Net earnings per share attributable to Formula Systems (1985) Shareholders					
Basic earnings per share	$ 1.47	$ 0.40	$ 0.46	$ 0.34	$ 0.72
Diluted earnings per share	$ 1.44	$ 0.38	$ 0.45	$ 0.33	$ 0.68

The accompanying notes are an integral part of the financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Nine months ended September 30, 2018	Nine months ended September 30, 2017	Three months ended September 30, 2018	Three months ended September 30, 2017	Year ended December 31, 2017
	Unaudited	Unaudited	Unaudited	Unaudited	
Net income	$ 53,687	$ 24,667	$ 18,155	$ 12,908	$ 39,440
Other comprehensive income (loss) (net of tax effect):					
Amounts that will not be reclassified subsequently to profit or loss:					
Actuarial income (loss) from defined benefit plans	45	(2,069)	85	(791)	(898)
Share in other comprehensive income (loss) of joint venture	-	102	-	-	104
Amounts that will be or that have been reclassified to profit or loss when specific conditions are met:					
Unrealized gain (loss) on debt instruments at fair value through other comprehensive income	(55)	192	40	(7)	144
Amounts transferred to the statement of profit or loss for sale of debt instruments at fair value through other comprehensive income	-	(94)	-	12	(94)
Exchange differences on translation of foreign operations	(19,255)	35,515	1,583	(1,756)	41,599
Total other comprehensive income (loss), net of tax	(19,265)	33,646	1,708	(2,542)	40,855
Total Comprehensive income	$ 34,422	$ 58,313	$ 19,863	$ 10,366	$ 80,295
Total comprehensive income attributable to:					
Equity holders of the Company	12,590	21,892	7,704	3,709	30,354
Redeemable non-controlling interests	2,635	6,073	1,593	445	7,836
Non-controlling interests	19,197	30,348	10,566	6,212	42,105
	$ 34,422	$ 58,313	$ 19,863	$ 10,366	$ 80,295

The accompanying notes are an integral part of the financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands (except share and per share data)

	Share Capital		Additional paid-in	Retained	Accumulated other comprehensive	Treasury shares	Non-controlling	Total
	Number	Amount	capital	earnings	Loss	(cost)	interests	Equity
Balance as of January 1, 2018	**14,738,782**	**4,187**	**98,040**	**239,156**	**18,078**	**(259)**	**413,720**	**772,922**
Impact of the adoption of IFRS 15	-	-	-	874	-	-	941	1,815
Balance as of January 1, 2018 (Including the impact of the adoption of IFRS 15)	**14,738,782**	**4,187**	**98,040**	**240,030**	**18,078**	**(259)**	**414,661**	**774,737**
Net Income	-	-	-	21,630	-	-	27,355	48,985
Foreign currency translation reserve	-	-	-	-	(9,035)	-	(8,153)	(17,188)
Actuarial loss from defined benefit plans	-	-	-	22	-	-	23	45
Unrealized loss on debt instruments at fair value through other comprehensive income, net	-	-	-	-	(27)	-	(28)	(55)
Total other comprehensive income (loss)	-	-	-	22	(9,062)	-	(8,158)	(17,198)
Total comprehensive income	**-**	**-**	**-**	**21,652**	**(9,062)**	**-**	**19,197**	**31,787**
Issuance of shares upon conversion of convertible debentures	979	(*)	40	-	-	-	-	40
Stock-based Compensation expenses	-	-	155	-	-	-	3,136	3,291
Transactions with non-controlling interests due to holding changes, including exercise of employees stock options	-	-	(421)	-	-	-	1,190	769
Acquisition of non-controlling interests	-	-	(210)	-	-	-	(547)	(757)
Dilution due to issuance of Magic's ordinary shares	-	-	2,682	-	-	-	22,722	25,404
Non-controlling interests arising from initially consolidated companies	-	-	-	-	-	-	28	28
Adjustments to redeemable non-controlling interests	-	-	(929)	-	-	-	(1,056)	(1,985)
Change in terms or expiration of redeemable non-controlling interests' put options	-	-	376	-	-	-	1,835	2,211
Dividend to Formula's shareholders	-	-	-	(5,011)	-	-	-	(5,011)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	(24,501)	(24,501)
Balance as of September 30, 2018	**14,739,761**	**4,187**	**99,733**	**256,671**	**9,016**	**(259)**	**436,665**	**806,013**

(*) Less than one thousand U.S. dollar

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands (except share and per share data)

	Share Capital		Additional paid-in	Retained	Accumulated other comprehensive	Treasury shares	Non-controlling	Total
	Number	Amount	capital	earnings	income (loss)	(cost)	interests	Equity
Balance as of January 1, 2017	**14,728,782**	**$ 4,184**	**$ 100,571**	**$234,268**	**$ (2,377)**	**$ (259)**	**$ 387,455**	**$723,842**
Net Income	-	-	-	5,754	-	-	16,809	22,563
Foreign currency translation reserve	-	-	-	-	17,017	-	14,529	31,546
Actuarial loss from defined benefit plans	-	-	-	(1,030)	-	-	(1,039)	(2,069)
Unrealized gain on debt instruments at fair value through other comprehensive income, net	-	-	-	-	99	-	105	204
Realized gain on debt instruments at fair value through other comprehensive income	-	-	-	-	(50)	-	(56)	(106)
Share in other comprehensive income of joint venture	-	-	-	-	102	-	-	102
Total other comprehensive income (loss)	-	-	-	(1,030)	17,168	-	13,539	29,677
Total comprehensive income	**-**	**-**	**-**	**4,724**	**17,168**	**-**	**30,348**	**52,240**
Issuance of restricted shares to employees	10,000	3	(3)	-	-	-	-	-
Stock-based Compensation expenses	-	-	1,001	-	-	-	2,095	3,096
Transactions with non-controlling interests due to holding changes, including exercise of employees stock options	-	-	(473)	-	-	-	1,309	836
Acquisition of non-controlling interests in indirect subsidiary	-	-	3	-	-	-	3	6
Adjustments to redeemable non-controlling interests	-	-	(2,758)	-	-	-	(3,007)	(5,765)
Dividend to Formula's shareholders	-	-	-	(5,011)	-	-	-	(5,011)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	(14,953)	(14,953)
Balance as of September 30, 2017	**14,738,782**	**$ 4,187**	**$ 98,341**	**$233,981**	**$ 14,791**	**$ (259)**	**$ 403,250**	**$754,291**

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands (except share and per share data)

	Share Capital		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury shares (cost)	Non-controlling interests	Total Equity
	Number	Amount						
Balance as of January 1, 2017	**14,728,782**	**$ 4,184**	**$ 100,571**	**$234,268**	**$ (2,377)**	**$ (259)**	**$ 387,455**	**$723,842**
Net Income	-	-	-	10,352	-	-	25,417	35,769
Foreign currency translation reserve	-	-	-	-	20,325	-	17,109	37,434
Actuarial loss from defined benefit plans	-	-	-	(453)	-	-	(445)	(898)
Unrealized gain from debt instruments at fair value through other comprehensive income, net	-	-	-	-	70	-	74	144
Realized gain on debt instruments at fair value through other comprehensive income	-	-	-	-	(44)	-	(50)	(94)
Share of other comprehensive income of joint venture	-	-	-	-	104	-	-	104
Total other comprehensive income (loss)	-	-	-	(453)	20,455	-	16,688	36,690
Total comprehensive income	**-**	**-**	**-**	**9,899**	**20,455**	**-**	**42,105**	**72,459**
Issuance of restricted shares to employees	10,000	3	(3)	-	-	-	-	-
Stock-based Compensation expenses	-	-	1,058	-	-	-	3,442	4,500
Transactions with non-controlling interests due to holding changes, including exercise of employees stock options	-	-	(1,306)	-	-	-	4,553	3,247
Acquisition of non-controlling interests in indirect subsidiary	-	-	3	-	-	-	3	6
Non-controlling interests arising from exercise of options in indirect subsidiary	-	-	-	-	-	-	28	28
Adjustments to redeemable non-controlling interests	-	-	(2,283)	-	-	-	(2,589)	(4,872)
Redeemable non-controlling interests classification to non-controlling interests	-	-	-	-	-	-	2,440	2,440
Dividend to Formula's shareholders	-	-	-	(5,011)	-	-	-	(5,011)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	(23,717)	(23,717)
Balance as of December 31, 2017	**14,738,782**	**$ 4,187**	**$ 98,040**	**$239,156**	**$ 18,078**	**$ (259)**	**$ 413,720**	**$772,922**

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands (except share and per share data)

	Nine months ended September 30, 2018	Nine months ended September 30, 2017	Year ended December 31, 2017
Reserve from debt instruments at fair value through other comprehensive income	350	400	377
Foreign currency translation reserve	10,777	16,504	19,812
Reserve from derivatives	4	4	4
Share of other comprehensive income (loss) of companies accounted for at equity	(2,115)	(2,117)	(2,115)
Accumulated other comprehensive loss	$ 9,016	$ 14,791	$ 18,078

The accompanying notes are an integral part of the financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Nine months ended September 30, 2018	Nine months ended September 30, 2017	Year ended December 31, 2017
	Unaudited	Unaudited	
Cash flows from operating activities:			
Net income	$ 53,687	$ 24,667	$ 39,440
Adjustments to reconcile net income to net cash provided by operating activities:			
Group's share in losses (gains) of companies accounted for at equity	66	(517)	(1,124)
Depreciation and amortization	36,049	32,553	43,646
Changes in value of debentures, net	(3,252)	3,604	5,277
Increase (decrease) in employee benefit liabilities	272	(91)	752
Loss from sale of property, plants and equipment	3	13	26
Stock-based compensation expenses	3,291	3,096	4,552
Changes in value of short-term and long-term loans from banks and others and deposits, net	(2,815)	5,933	6,731
Changes in deferred taxes, net	(4,707)	(5,941)	(12,819)
Change in liability in respect of business combinations	2,717	1,494	1,531
Loss from sale and increase in value of marketable securities classified as trading	-	120	149
Amortization of premium and accrued interest on debt instruments at fair value through other comprehensive income	165	663	716
Realized gain from sale of debt instruments at fair value through other comprehensive income	-	(106)	(94)
Change in value of dividend preference derivative in TSG	-	-	(260)
Working capital adjustments:			
Decrease (increase) in inventories	(552)	(796)	1,037
Increase in trade receivables	(39,427)	(18,403)	(38,223)
Decrease (increase) in other current and long-term accounts receivable	(9,141)	(2,340)	755
Increase (decrease) in trade payables	163	(11,245)	6,086
Increase (decrease) in other accounts payable, employees and payroll accrual and other long-term liabilities	(8,146)	(7,477)	7,199
Increase (decrease) in deferred revenues	(1,373)	17,431	15,718
Net cash provided by operating activities	27,000	42,658	81,095

The accompanying notes are an integral part of the financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Nine months ended September 30, 2018	Nine months ended September 30, 2017	Year ended December 31, 2017
	Unaudited	Unaudited	
Cash flows from investing activities:			
Payments for business acquisitions, net of cash acquired (Appendix B)	(28,495)	(116,043)	(119,103)
Payments to former shareholders of consolidated companies	(7,338)	(7,598)	(8,817)
Purchase of intangible assets	(180)	-	-
Purchase of property and equipment	(9,138)	(7,028)	(9,573)
Proceeds from maturity and sale net of investment in debt instruments at fair value through other comprehensive income	2,000	39,406	40,622
Proceeds from sale of property, plants and equipment	288	-	-
Investment in and loans to affiliates and other companies	-	(25)	(25)
Change in short-term and long-term deposits, net	(252)	(26)	(888)
Capitalization of software development and other costs	(6,480)	(7,284)	(9,338)
Net cash used in investing activities	(49,595)	(98,598)	(107,122)
Cash flows from financing activities:			
Exercise of employees stock options in subsidiaries	769	835	3,240
Issuance of Magic's ordinary shares	25,404	-	-
Dividend paid to non-controlling interests and redeemable non- controlling interests in subsidiaries	(24,517)	(22,467)	(31,231)
Dividend to Formula's shareholders	(5,011)	(7,070)	(12,081)
Short-term bank credit, net	52,366	14,527	(21,176)
Repayment of long-term loans from banks and others	(32,050)	(32,236)	(46,065)
Receipt of long term loans	26	11,181	52,734
Proceeds from issuance of debentures, net	45,356	78,229	78,229
Repayment of long-term liabilities to office of the chief scientist	(213)	(275)	(502)
Repayment of debentures	(9,383)	(3,656)	(3,656)
Purchase of non-controlling interests	(757)	-	-
Repayment of capital lease	-	(480)	(480)
Cash paid due to exercise of put option by redeemable non-controlling interests	(142)	-	-
Net cash provided by financing activities	51,848	38,588	19,012
Effect of exchange rate changes on cash and cash equivalents	(3,436)	12,271	12,912
Increase (decrease) in cash and cash equivalents	25,817	(5,081)	5,897
Cash and cash equivalents at beginning of year	245,947	240,050	240,050
Cash and cash equivalents at end of year	$ 271,764	$ 234,969	$ 245,947

The accompanying notes are an integral part of the financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

		Nine months ended September 30, 2018	Nine months ended September 30, 2017	Year ended December 31, 2017
		Unaudited	Unaudited	
A.	Non-cash activities:			
	Dividend payable to Formula's shareholders	$ -	$ 5,011	$ -
	Deferred payment to former shareholders of consolidated companies	$ -	$ -	$ 652
	Dividend payable to non-controlling interests and redeemable non-controlling interests	$ 5,172	$ -	$ 692
B.	Acquisition of newly-consolidated subsidiaries and activities, net of cash acquired:			
	Assets and liabilities of subsidiaries consolidated as of acquisition date:			
	Working capital (other than cash and cash equivalents)	5,117	7,618	9,631
	Property and equipment	(397)	(1,200)	(1,332)
	Goodwill and intangible assets	(51,621)	(140,093)	(148,085)
	Other long-term assets	(6)	-	(125)
	Liabilities to banks and others	62	184	281
	Long-term liabilities	-	(78)	-
	Deferred tax liability, net	5,245	17,526	17,911
	Liability to formerly shareholders	6,417	-	2,616
	Non-controlling interests at acquisition date	28	-	-
	Redeemable non-controlling interests at acquisition date	6,660	-	-
	Total	$ (28,495)	$ (116,043)	$ (119,103)

The accompanying notes form an integral part of the financial statements.

U.S. dollars in thousands, except share and per share data

NOTE 1:- GENERAL

a. Formula Systems (1985) Ltd. ("Formula" or the "Company") was incorporated in Israel and began its business operations in 1985. Since 1991, Formula's ordinary shares, par value NIS 1.0 per share, have been traded on the Tel-Aviv Stock Exchange ("TASE"), and, in 1997, began trading through American Depositary Shares ("ADSs") under the symbol "FORTY" on the NASDAQ Global Market in the United States until January 3, 2011, at which date the listing of Formula's ADSs was transferred to the NASDAQ Global Select Market ("NASDAQ"). Each ADS represents one ordinary share of Formula. The Company is considered an Israeli resident. The controlling shareholder of the Company is Asseco Poland S.A. ("Asseco"), a Polish public company, traded on the Warsaw Stock Exchange.

b. Formula, through its investees (collectively, the "Group") is engaged in providing software services, proprietary and non-proprietary software solutions, software product marketing and support, computer infrastructure and integration solutions and training and integration. The Group operates through five directly held subsidiaries: Matrix IT Ltd. ("Matrix"); Magic Software Enterprises Ltd. ("Magic"), Sapiens International Corporation N.V ("Sapiens"), Insync Staffing Solutions, Inc. ("Insync") and Michpal Micro Computers (1983) Ltd. ("Michpal"), and one jointly controlled entity: TSG IT Advanced Systems Ltd. ("TSG").

c. The following table presents the ownership of Formula's directly held investees, as of the dates indicated (the list consists only of active companies):

	Percentage of ownership	
Name of Investee	**September 30, 2018**	**December 31, 2017**
Matrix	49.18	49.50
Magic	45.21	47.12
Sapiens	48.16	48.14
Insync	90.09	90.09
Michpal	100	100
TSG	50.00	50.00

NOTE 2:- BASIS OF PREPERATION

The interim condensed consolidated financial statements for the three-months period and for the nine-months period ended September 30, 2018 have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim financial reporting. The Interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2017 which were published on May 15, 2018.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of new standards effective as of January 1, 2018. The Group has not early adopted any standard or interpretation amendment that has been issued but is not yet effective.

NOTE 3:- NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The Group has been applied for the first time in these financial statements IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. As required by IAS 34, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2018 but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15, issued by the IASB in May 2014, supersedes IAS 11 'Construction Contracts', IAS 18 'Revenue from contracts with customers' and related Interpretations and applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards.

The new standard establishes a five-step model to account for revenue arising from contracts with customers and requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers:

Step 1: Identify the contract with a customer, including reference to contract combination and accounting for contract modifications.
Step 2: Identify the separate performance obligations in the contract.
Step 3: Determine the transaction price, including reference to variable consideration, significant financing components, non-cash consideration and any consideration payable to the customer.
Step 4: Allocate the transaction price to the distinct performance obligations on a relative stand-alone selling price basis using observable information, if it is available, or using estimates and assessments.
Step 5: Recognize revenue when a performance obligation is satisfied, either at a point in time or over time.

NOTE 3:- NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (Cont.)

Under IFRS 15, revenues are recognized when control of the promised goods or services are transferred to the customers in an amount that reflects the consideration that the Group expects to receive in exchange for those goods or services.

The Group enters into contracts that can include various combinations of products and software, IT services and hardware, as detailed below, which are generally capable as being distinct from each other and accounted for as separate performance obligations.

For contracts with customers that contain multiple performance obligations, the Group accounts for each individual performance obligation separately, if they are distinct from each other. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. Standalone selling prices of software sales are typically estimated using the residual approach. Standalone selling prices of software and IT services are typically estimated based on observable transactions when these services are sold on a standalone basis.

The following is a description of principal activities from which the Group generates its revenues:

Sale of proprietary licenses without significant related services

In the event in which the sale of a proprietary license is distinct from other significant modification or implementation services, and thereby it constitutes a separate performance obligation, the Group considers whether this performance obligation in granting the license is to provide the customer with either:

- a right to access the entity's intellectual property in the form in which it exists throughout the licensing period; or
- a right to use the entity's intellectual property in the form in which it exists at the time of granting the license

The vast majority of licenses sold separately by the Group (thus representing a separate performance obligation) are intended to provide the customer with a right to use the intellectual property, which means revenues from the sale of such licenses are recognized at the point in time at which control of the license is transferred to the customer.

The Group recognizes revenue from software licensing transactions over time when the Group provides the customer a right to access the Group's intellectual property throughout the license period.

NOTE 3:- NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (Cont.)

Sale of proprietary licenses with significant related services

Revenues from contracts that include the sale of proprietary licenses with significant related services (for example, modifications, implementation or customization to customer-specific specifications) are generally accounted by the Group as performance obligations satisfied over time. In such contracts the Group is normally committed to provide the customer with a functional IT system and the customer can only benefit from such functional system, being the final product that would normally be comprised of proprietary licenses and significant related services. The Group considers that a commitment to sell a license under such performance obligation does not satisfy the criteria of being distinct, because the transfer of the license is only part of a larger performance obligation. The Group recognizes revenue from such contracts using cost based input methods, which recognizes revenue and gross profit as the work is performed based on a ratio between actual costs incurred compared to the total estimated costs for the contract. This is because, in accordance with IFRS 15, revenues may be recognized over time of transferring control of the supplied goods and services, as long as the entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date throughout the duration of the contract. Provisions for estimated losses on uncompleted contracts are made during the period in which such losses are first determined, in the amount of the estimated loss for the entire contract.

When appropriate, the Group also applies a practical expedient permitted under IFRS 15 whereby if the Group has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Group's performance completed to date (for example, a service contract in which an entity bills a fixed amount for each hour of service provided), the Group may recognize revenue in the amount it is entitled to invoice.

Deferred revenues, which represent a contract liability, include unearned amounts received under maintenance and support (mainly) and amounts received from customers for which revenues have not yet been recognized.

Maintenance services and warranties

Post contract support includes annual maintenance contracts providing for unspecified upgrades for new versions and enhancements on a when-and-if-available basis for an annual fee. The right for an unspecified upgrade for new versions and enhancements on a when-and-if-available basis do not specify the features, functionality and release date of future product enhancements for the customer to know what will be made available and the general timeframe in which it will be delivered.

The accounting policy regarding the recognition of Post contract support remained unchanged after the adoption of IFRS 15, as such services, in principle, constitute a separate performance obligation where the customer consumes the benefits of goods and services as they are delivered by the provider, as a consequence of which revenues are recognized over time during the service performance period.

The Group considers the post contract support performance obligation as a distinct performance obligation that is satisfied over time, and as such, it recognizes revenue for post contract support on a straight-line basis over the period for which technical support is contractually agreed to be provided to the software, typically twelve (12) months.

NOTE 3:- NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (Cont.)

In certain cases, the Group also provides a warranty for goods and services sold (i.e. extended warranties that the scope of which is broader than just an assurance to the customer that the product/service complies with agreed-upon specifications). The Group has ascertained that such warranties granted by the Group meet the definition of service. The conclusion regarding the extended nature of a warranty is made whenever the Group contractually undertakes to repair any errors in the delivered software within a strictly specified time limit and/or when such warranty is more extensive than the minimum required by law. Under IFRS 15, the fact of granting an extended warranty indicates that the Group actually provides an additional service. As such, the Group recognizes an extended warranty as a separate performance obligation and allocates a portion of the transaction price to such service. In all cases where an extended warranty is accompanied by a maintenance service, which is even a broader category than an extended warranty itself, revenues are recognized over time because the customer consumes the benefits of such service as it is performed by the provider. If this is the case, the Group continues to allocate a portion of the transaction price to such maintenance service. Likewise, in cases where a warranty service is provided after the project completion and is not accompanied by any maintenance service, then a portion of the transaction price and analogically recognition of a portion of contract revenues will have to be deferred until the warranty service is actually fulfilled.

Sale of third-party licenses and services

Third-party licenses and services includes revenues from the sale of third-party licenses as well as from the provision of services which, due to technological or legal reasons, must be carried out by subcontractors (this applies to hardware and software maintenance and outsourcing services provided by their manufacturers). Revenues from the sale of third-party licenses are accounted for as sales of goods, which means that such revenues are recognized at the point in time at which control of the license is transferred to the customer. Concurrently, revenues from third-party services, including primarily third-party maintenance services, are recognized over time when such services are provided to the customer.

Whenever the Group is involved in the sale of third-party licenses or services, it will consider whether the Group acts as a principal or an agent; however, in most cases the conclusion is that the Group is the main party required to satisfy a performance obligation and therefore the resulting revenues are recognized in the gross amount of consideration

Sale of hardware

Sale of hardware includes revenues from contracts with customers for the supply of infrastructure. In this category, revenues are recognized basically at the point in time at which control of the equipment is transferred. This does not apply to contracts in which the hardware is not delivered separately from services provided alongside, in such case the sale of hardware is part of a performance obligation involving the supply of a comprehensive system. However, such comprehensive projects are a rare practice in the Group as the sale of hardware is predominantly performed on a distribution basis.

NOTE 3:- NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (Cont.)

Variable consideration

In accordance with IFRS 15, if a contract consideration encompasses any amount that is variable, the Group shall estimate the amount of consideration to which it will be entitled in exchange for transferring promised goods or services to the customer, and shall include a portion or the whole amount of variable consideration in the transaction price but only to the extent that it is highly probable a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Significant financing component

When contracts involve a significant financing component, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provide the customer with a significant benefit of financing.

The Group has elected to apply the practical expedient allowed by IFRS 15 according to which it does not separate the financing component in transactions whose credit terms are less than one year and will recognize revenue in the amount of the consideration stated in the contract even if the customer pays for the goods or services subsequent to their receipt.

Costs of contracts with customers

The costs of obtaining a contract are those additional (incremental) costs incurred by the Group in order to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The Group recognizes such costs as an asset if it expects to recover those costs. Such capitalized costs of obtaining a contract shall be amortized over a period when the Group satisfies the performance obligations arising from the contract.

As a practical expedient, the Group recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the Group would have otherwise recognized is one year or less.

Costs to fulfil a contract are the costs incurred in fulfilling a contract with a customer. The Group recognizes such costs as an asset if they are not within the scope of another standard (for example, IAS 2 ‘Inventories’, IAS 16 ‘Property, Plant and Equipment’ or IAS 38 ‘Intangible Assets’) and if those costs meet all of the following criteria:

i) the costs relate directly to a contract or to an anticipated contract with a customer,
ii) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future, and
iii) the costs are expected to be recovered.

The Group pays commissions to sales and marketing and certain management personnel based on their attainment of certain predetermined sales or profit goals. Sales commissions are considered incremental costs of obtaining a contract with a customer and are deferred and amortized. The Group is required to capitalize and amortize incremental costs of obtaining a contract, such as certain sales commission costs, on a systematic basis that is consistent with the transfer to the customer of the performance obligations to which the asset relates. Amortization expenses related to these costs are included in sales and marketing expenses in the accompanying consolidated statements of operations.

U.S. dollars in thousands, except share and per share data

NOTE 3:- NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (Cont.)

IFRS 15 – First-time adoption

The Group implemented IFRS 15 as of January 1, 2018 and elected to apply the modified retrospective approach recognizing the cumulative effect from applying the standard as an adjustment to the opening balance of retained earnings. The Group has used a practical expedient allowed under IFRS 15 and exempt from the restatement of comparable data. This means that financial data reported for reporting periods prior to December 31, 2017, including for the three and nine-months periods ended September 30, 2017, has been prepared on the basis of the following standards: IAS 18 ‘Revenue’, IAS 11 ‘Construction Contracts’ as well as interpretations related to revenue recognition that were applicable before the effective date of IFRS 15. Results for reporting periods beginning after January 1, 2018 are presented in accordance with IFRS 15.

In line with the chosen approach for the implementation of IFRS 15, the Group also decided to use a practical expedient not to restate contracts in respect of all modifications that were approved before the beginning of the earliest period presented.

The table below presents a quantified analysis of opening balance adjustments which resulted from the upfront recognition of license revenue (mainly term-based software licenses which do not involve significant customization) and from incremental costs incurred to obtain contracts (mainly due to sales commissions). The Group has concluded that certain term-based software licenses which do not involve significant customization should now be considered as distinct performance obligations separate from other performance obligations, and thus should be measured using the relative standalone selling price basis, and recognized as revenue accordingly (at a point in time, rather than over the term of the contracts). This change in measurement results from the Group’s determination that the control over such software licenses had been transferred to the customer before the end of 2017 and, pursuant to the new standard, the arising revenues should have been recognized at that time. This type of transactions concerned to licenses sold by Sapiens and therefore the effects of these adjustments were attributable also to non-controlling interests.

1/1/2018	Opening balance adjustment
Current Assets	
Trade receivables	20
Other accounts receivable and prepaid expenses	629
Current Liabilities	
Deferred revenue and customer advances	(1,397)
Other accounts payable	231
Equity	
Retained earnings	874
Other components of equity – non-controlling interests	941

U.S. dollars in thousands, except share and per share data

NOTE 3:- NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (Cont.)

As the Group has used the modified retrospective approach and recognized the cumulative effect of first-time adoption of IFRS 15 as of January 1, 2018, the table below presents a comparison of selected items of the interim condensed consolidated statement of financial position drawn up as of September 30, 2018 with their respective values calculated in line with the principles applied before the implementation of IFRS 15 by the Group, this is in accordance with IAS 18, IAS 11 and relevant interpretations:

	Balance as of September 30, 2018 (in accordance with IFRS 15)	Reversal of the opening balance adjustment due to IFRS 15	Adjustment due to adoption of IFRS 15 in current period	Amounts without adoption of IFRS 15 (calculated in accordance with previous standards, i.e. IAS 11 and IAS 18)
Current Assets				
Trade receivables	416,587	(20)	(2,568)	413,999
Prepaid expenses and other accounts receivable (*)	48,628	(629)	1,715	49,714
Long term assets				
Prepaid expenses and other accounts receivable (*)	20,528	-	(1,317)	19,211
Current Liabilities				
Deferred revenue and customer advances	59,212	1,397	2,146	62,755
Other accounts payable	60,238	(231)	(113)	59,894
Equity				
Retained earnings	256,671	(874)	(2,210)	253,587
Other components of equity – non-controlling interests	436,665	(941)	(1,993)	433,731

(*) The impact of the implementation of IFRS 15 on the Group's short-term and long-term prepaid expenses and other accounts receivable is due to the recognition of third party expenses in the amount of $2,231 offset by the recognition of long-term income receivable in the amount of $1,954 and deferment of commission expenses in the amount of $508.

U.S. dollars in thousands, except share and per share data

NOTE 3:- NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (Cont.)

The table below presents the impact of changes resulting from the applied standard on the amount of revenues and profit at various levels for the nine-month period ended September 30, 2018:

	Nine months ended September 30, 2018	Adjustments due to adoption of IFRS 15 in current period	Amounts without adoption of IFRS 15 (calculated in accordance with previous standards, i.e. IAS 11 and IAS 18)
Revenues	1,099,288	(4,438)	1,094,850
Cost of revenues	854,856	-	854,856
Gross Profit	**244,432**	**(4,438)**	**239,994**
Research and development expenses, net	31,339	-	31,339
Selling, marketing, general and administrative expenses	135,954	(121)	135,833
Other income	-	-	-
Operating income	**77,139**	**(4,317)**	**72,822**
Financial expenses	(9,106)	-	(9,106)
Financial income	1,740	-	1,740
Group’s share of profits (losses) of companies accounted for at equity, net	(66)	-	(66)
Income before taxes on income	**69,707**	**(4,317)**	**65,390**
Taxes on income	16,020	(114)	15,906
Net income	53,687	(4,203)	49,484
Attributable to:			
Equity holders of the Company	21,630	(2,210)	19,381
Redeemable non-controlling interests	4,702	-	4,702
Non-controlling interests	27,355	(1,993)	25,401

IFRS 9 - Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The new Standard has been applied for the first time in these financial statements retrospectively without restatement of comparative data. The initial adoption of IFRS 9 does not have an impact on the interim condensed consolidated financial statements of the Group.

(a) Classification and measurement

Under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortized cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group’s business model for managing the assets; and whether the instruments’ contractual cash flows represent ‘solely payments of principal and interest’ on the principal amount outstanding (the ‘SPPI criterion’).

NOTE 3:- NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (Cont.)

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortized cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's Trade and other receivables, and Loans included under Other non-current financial assets.

- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's quoted debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. Under IAS 39, the Group's quoted debt instruments were classified as available-for-sale (AFS) financial assets.

Other financial assets are classified and subsequently measured, as follows:

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's unquoted equity instruments were classified as AFS financial assets.

- Financial assets at FVPL comprise derivative instruments and quoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under IAS 39, the Group's quoted equity securities were classified as AFS financial assets. Upon transition the AFS reserve relating to quoted equity securities, which had been previously recognized under accumulated OCI, was reclassified to Retained earnings.

- The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognized in the statement of profit or loss.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was in under IAS 39. Similar to the requirmenets of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments at fair value, with the changes in fair value recognized in the statement of profit or loss.

(b) Impairment

The adoption of IFRS 9 has fundamentally changes the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL. ELCs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

IFRS 16, "Leases":

In January 2016, the IASB issued IFRS 16, "Leases" ("the new Standard") effective for annual periods beginning on or after 1 January 2019. According to the new Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

According to the new Standard:

1. Lessees are required to recognize all leases in the statement of financial position (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17, "Leases".

2. Lessees are required to initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognize interest and depreciation expense separately.

3. Variable lease payments that are not dependent on changes in the Consumer Price Index ("CPI") or interest rates, but are based on performance or use (such as a percentage of revenues) are recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.

4. In the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and the effect of the remeasurement is an adjustment to the carrying amount of the right-of-use asset.

5. The new Standard includes two exceptions according to which lessees are permitted to elect to apply a method similar to the current accounting treatment for operating leases. These exceptions are leases for which the underlying asset is of low value and leases with a term of up to one year.

6. The accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

The new Standard permits lessees to use one of the following approaches:

1. Full retrospective approach - according to this approach, a right-of-use asset and the corresponding liability will be presented in the statement of financial position as if they had always been measured according to the provisions of the new Standard. Accordingly, the effect of the adoption of the new Standard at the beginning of the earliest period presented will be recorded in equity. Also, the Company will restate the comparative data in its financial statements. Under this approach, the balance of the liability as of the date of initial application of the new Standard will be calculated using the interest rate implicit in the lease, unless this rate cannot be easily determined in which case the lessee's incremental borrowing rate of interest on the commencement date of the lease will be used.

2. Modified retrospective approach - this approach does not require restatement of comparative data. The balance of the liability as of the date of initial application of the new Standard will be calculated using the lessee's incremental borrowing rate of interest on the date of initial application of the new Standard. As for the measurement of the right-of-use asset, the Company may choose, on a lease-by-lease basis, to apply one of the two following alternatives:

   - Recognize an asset in an amount equal to the lease liability, with certain adjustments.
   - Recognize an asset as if the new Standard had always been applied.

   Any difference arising on the date of first-time recorded in equity.

   The Group believes that it will apply the modified retrospective approach upon the initial adoption of the new Standard by measuring the right-of-use asset at an amount equal to the lease liability, as measured on the transition date.

   The Group is evaluating the possible effects of the new Standard.

IFRS 3, "Business Combinations":

In October 2018, the IASB issued an amendment to the definition of a "business" in IFRS 3, "Business Combinations" ("the Amendment"). The Amendment is intended to assist entities in determining whether a transaction should be accounted for as a business combination or as an acquisition of an asset.

The Amendment consists of the following:

1. Clarification that to meet the definition of a business, an integrated set of activities and assets must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create output.

2. Removal of the reference to the assessment whether market participants are capable of acquiring the business and continuing to operate it and produce outputs by integrating the business with their own inputs and processes.

3. Introduction of additional guidance and examples to assist entities in assessing whether the acquired processes are substantive.

4. Narrowing the definitions of "outputs" and "business" by focusing on goods and services provided to customers.

5. Introducing an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The Amendment is to be applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, with earlier application permitted.

U.S. dollars in thousands, except share and per share data

NOTE 5:- BUSINESS COMBINATION

i. Sapiens

Acquisition of Adaptik Corporation

On March 7, 2018 (the "acquisition date"), Sapiens completed the acquisition of all of outstanding shares of Adaptik Corporation, a New-Jersey company engaged in the development of software solutions for P&C insurers, including policy administration, rating, billing, customer management, task management and product design, in a total cash consideration of $18,518 (out of this amount $18,318 was paid in March 2018 and $200 will be paid in March 2022). In addition, the seller has performance based payments relating to achievements of revenue targets over three years (2018-2020) of up to $3,700. Such payments are subject to continued employment and therefore, not part of the purchase price. Acquisition related costs were immaterial.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed, with reference to the acquisition as of the acquisition date:

Net assets	$	(2,358)
Intangible assets		12,936
Deferred taxes		(3,528)
Goodwill		11,468
Net assets acquired	$	18,518

ii. Matrix

a. Acquisition of Alius Group Inc.

On January 18, 2018, Matrix acquired 100% of the share capital of Alius Group in the United States for a cash consideration of approximately $16,600. Alius provides consulting services in the area of regulatory and compliance in the US financial market. Acquisition related costs were immaterial. The acquisition was accounted for by the purchase method.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed, with reference to the acquisition as of the acquisition date:

Net assets	$	(5)
Intangible assets		3,062
Deferred taxes		(826)
Goodwill		14,551
Net assets acquired	$	16,782

U.S. dollars in thousands, except share and per share data

NOTE 5:- BUSINESS COMBINATION (Cont.)

b. Acquisition of Pleasant Valley Business Solutions, LLC

On March 13, 2018, Matrix acquired 100% of the share capital of Pleasant Valley Business Solutions (hereafter "PVBS") in the United States for a cash consideration of approximately $7,600. In addition, the seller has performance based payments relating to achievements of profitability targets over three years (2018-2020) of up to $3,200. PVBS is engaged in the implementation and assimilation of ERP systems for US government suppliers. Acquisition related costs were immaterial. The acquisition was accounted for by the purchase method.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed, with reference to the acquisition as of the acquisition date:

Net assets	$	(851)
Intangible assets		3,300
Deferred taxes		(920)
Goodwill		7,360
Net assets acquired	$	8,889

U.S. dollars in thousands, except share and per share data

NOTE 5:- BUSINESS COMBINATION (Cont.)

c. Acquisition of Noah Technologies Ltd.

On November 25, 2018, Matrix acquired 100% of the share capital of Noah Technologies Ltd in Israel for a cash consideration of approximately $1,626. In addition, the seller has performance based payment capped at NIS 4,000 (approximately $1,067), estimated on the date of the transaction at $330, relating to achievement of certain profitability targets for the years 2019-2021. The acquisition was accounted for by the purchase method.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed, with reference to the acquisition as of the acquisition date:

Net assets	$	(473)
Intangible assets		580
Deferred taxes		(133)
Goodwill		1,485
Net assets acquired	$	1,459

The estimated fair values of the tangible and intangible assets referring to acquisition which were made in 2018 are provisional and are based on information that was available as of the acquisition date to estimate the fair value of these amounts. The Group’s management believes the information provides a reasonable basis for estimating the fair values of these amounts, but is waiting for additional information necessary to finalize those fair values. Therefore, provisional measurements of fair value reflected are subject to change. The Group expects to finalize the tangible and intangible assets valuation and complete the acquisition accounting as soon as practicable but no later than the measurement period.

d. Other acquisitions by Matrix in 2018

During the nine-month period ended September 30, 2018 Matrix acquired additional activities whose influence on the financial statements of the Company was immaterial, for a total consideration of $2,275 including $224 estimated on the date of the transaction for performance based payment relating to achievement of certain profitability targets (provisional and is based on information that was available as of the acquisition date to estimate the fair value of this amount).

U.S. dollars in thousands, except share and per share data

NOTE 6:- FAIR VALUE MEASUREMENT

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers counterparty credit risk in its assessment of fair value.

a. The Company's financial assets and liabilities measured at fair value on a recurring basis, including accrued interest components, consisted of the following types of instruments as of September 30, 2018 and December 31, 2017:

	Fair value measurements September 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Government and corporate debentures	$ -	$ 10,756	$ -	$ 10,756
Convertible debentures	-	1,163	-	1,163
Dividend preference derivative in TSG (1)	-	-	2,400	2,400
Total financial assets	$ -	$ 11,919	$ 2,400	$ 14,319
Liabilities:				
Redeemable non-controlling interests (2)	$ -	$ -	$ 59,429	$ 59,429
Contingent consideration (2)	-	-	10,724	10,724
Total financial liabilities	$ -	$ -	$ 70,153	$ 70,153

	Fair value measurements December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Government and corporate debentures	$ -	$ 12,929	$ -	$ 12,929
Convertible debentures	-	1,209	-	1,209
Dividend preference derivative in TSG (1)	-	-	2,400	2,400
Total financial assets	$ -	$ 14,138	$ 2,400	$ 16,538
Liabilities:				
Redeemable non-controlling interests (2)	$ -	$ -	$ 52,876	$ 52,876
Contingent consideration (2)	-	-	6,345	6,345
Total financial liabilities	$ -	$ -	$ 59,221	$ 59,221

(1) The fair value of dividend preference derivative in TSG was estimated using the Monte-Carlo simulation technique.
(2) The fair value of redeemable non-controlling interests and contingent consideration was determined based on the present value of the future expected cash flow.

The following table provides a reconciliation of liability to redeemable non-controlling interests for the nine-months period ended September 30, 2018 and 2017:

	2018	2017
Carrying amount as of January 1st	$ 52,876	$ 46,484
Net income attributable to redeemable non-controlling interests	4,702	2,104
Adjustments in redeemable non-controlling interests to fair value	1,985	5,765
Increase in redeemable non-controlling interest as part of acquisitions	6,662	-
Redeemable non-controlling interests classification to non-controlling due to change in terms and expiration of put options	(2,183)	-
Exercise of put option by redeemable non-controlling interests	(142)	-
Dividend to redeemable non-controlling interests	(2,404)	(3,236)
Foreign currency translation adjustments	(2,067)	3,969
Carrying amount as of September 30	$ 59,429	$ 55,086

U.S. dollars in thousands, except share and per share data

NOTE 6:- FAIR VALUE MEASUREMENT (Cont.)

The following table provides a reconciliation of liability to redeemable non-controlling interests for the three-months period ended September 30, 2018 and 2017:

	2018	2017
Carrying amount as of July 1st	$ 58,062	$ 56,378
Net income attributable to redeemable non-controlling interests	1,591	928
Adjustments in redeemable non-controlling interests to fair value	596	351
Increase in redeemable non-controlling interest as part of acquisitions	1,042	-
Redeemable non-controlling interests classification to non-controlling due to change in terms	(1,187)	-
Exercise of put option by redeemable non-controlling interests	-	-
Dividend to redeemable non-controlling interests	(677)	(2,088)
Foreign currency translation adjustments	2	(483)
Carrying amount as of September 30	$ 59,429	$ 55,086

The following table provides a reconciliation of liability to redeemable non-controlling interests for the three-months period ended December 31, 2017:

January 1, 2017	$ 46,484
Net income attributable to redeemable non-controlling interests	3,671
Share-based compensation attributable to redeemable non-controlling Interests	52
Change in redeemable non-controlling interests to fair value	4,872
Redeemable non-controlling interests classification to non-controlling Interests due to expiration of put options	(2,440)
Dividend in redeemable non-controlling interests	(3,928)
Foreign currency translation adjustments	4,165
December 31, 2017	$ 52,876

b. The carrying amount of cash and cash equivalents, short-term deposits, trade receivables, other accounts receivable, credit and loans from banks and others, debentures, trade payables, employees and payroll accrual and other accounts payable approximates their fair value.

NOTE 7:- OPERATING SEGMENTS

The chief operating decision-makers (CODM) have been identified as the CEO. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM assess the performance of the Group based on each of the Group's directly held investees' operating income. Headquarters and finance expenses of Formula are allocated proportionally among the investees. For the purpose of this interim condensed consolidated financial statements the following reporting segments were identified: Matrix, Magic, Sapiens and other investees comprised of Insync and Michpal.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 7:- OPERATING SEGMENTS (Cont.)

	Matrix	Sapiens	Magic	Other	Adjustments	Total
Nine months ended September 30, 2018:						
Revenues from external customers	643,835	216,396	211,055	28,002	-	1,099,288
Inter-segment revenues	2,204	-	1,027	-	(3,231)	-
Revenues	646,039	216,396	212,082	28,002	(3,231)	1,099,288
Unallocated corporate expenses	-	-	-	-	(1,584)	(1,584)
Operating income (loss)	41,018	13,808	22,315	1,582	(1,584)	77,139
Financial income (expense) net						(7,366)
Group's share of profits (losses) of companies accounted for at equity, net						(66)
Taxes on income						(16,020)
Net income						53,687
Nine months ended September 30, 2017:						
Revenues from external customers	573,967	197,594	190,376	26,663	-	988,600
Inter-segment revenues	2,482	-	1,525	-	(4,007)	-
Revenues	576,449	197,594	191,901	26,663	(4,007)	988,600
Unallocated corporate expenses	-	-	-	-	(2,117)	(2,117)
Operating income (loss)	37,060	(1,659)	18,313	1,427	(2,117)	53,024
Financial income (expense) net						(17,040)
Group's share of profits (losses) of companies accounted for at equity, net						517
Taxes on income						(11,834)
Net income						24,667
Three months ended September 30, 2018:						
Revenues from external customers	207,544	73,237	71,994	9,655	-	362,430
Inter-segment revenues	854	-	141	-	(995)	-
Revenues	208,398	73,237	72,135	9,655	(995)	362,430
Unallocated corporate expenses	-	-	-	-	(577)	(577)
Operating income (loss)	13,011	5,802	7,621	703	(577)	26,560
Financial income (expense) net						(4,105)
Group's share of profits (losses) of companies accounted for at equity, net						(3)
Taxes on income						(4,297)
Net income						18,155
Three months ended September 30, 2017:						
Revenues from external customers	202,783	72,011	65,007	8,828	-	348,629
Inter-segment revenues	932	-	654	-	(1,586)	-
Revenues	203,715	72,011	65,661	8,828	(1,586)	348,629
Unallocated corporate expenses	-	-	-	-	(1,272)	(1,272)
Operating income (loss)	13,924	2,934	5,764	560	(1,272)	21,910
Financial income (expense) net						(3,605)
Group's share of profits (losses) of companies accounted for at equity, net						107
Taxes on income						(5,504)
Net income						12,908

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 7:- OPERATING SEGMENTS (Cont.)

	Matrix	Sapiens	Magic	Other	Adjustments	Total
Year ended December 31, 2017:						
Revenues from external customers	790,946	269,194	256,207	38,792	-	1,355,139
Inter-segment revenues	3,679	-	1,933	200	(5,812)	-
Revenues	794,625	269,194	258,140	38,992	(5,812)	1,355,139
Unallocated corporate expenses	-	-	-	-	(3,380)	(3,380)
Depreciation and amortization	6,865	21,969	13,611	1,209	2	43,656
Operating income (loss)	51,307	(768)	23,974	1,721	(3,380)	72,854
Financial income (expense) net						(21,167)
Group's share of profits (losses) of companies accounted for at equity, net						1,124
Taxes on income						(13,371)
Net income						39,440

NOTE 8:- SIGNIFICANT EVENTS DURING THE PERIOD

a. On January 31, 2018, the Company has completed a private placement to qualified investors in Israel of an additional aggregate NIS 150 million par value of Series A Secured Debentures at a price of NIS 1,034.7 for each NIS 1,000 principal amount. The aggregate gross proceeds totaled NIS 155.2 million (approximately $45.6 million), excluding issuance costs of $0.2 million. As a result of the private placement, the total outstanding principal amount of the Series A Secured Debentures increased to approximately NIS 239.5 million (or $69.1 million). The terms of the Series A Secured Debentures sold in the private placement are identical in all respects to those of the Series A Secured Debentures sold in Formula's September 2015 public offering. In accordance with the terms of the indenture related to Series A Secured debentures, Formula pledged additional 1,692,954 shares of Matrix and 3,487,198 shares of Magic.

b. In May 2018 Formula declared a cash dividend of approximately $5,011 million (or $0.34 per share) to shareholders of record on June 5, 2018 that was paid on June 20, 2018.

c. On July 12, 2018 Magic concluded a private placement issuing 3,150,559 of its ordinary shares to several leading Israeli institutional investors and 1,117,734 ordinary shares to Formula under the same terms. The Group's gross proceeds from the offering amounted to $25,405 based on a price of $8.20 per share. Magic intends to use the net proceeds of the offering to support its continued organic growth momentum and funding of potential acquisitions. Following the private placement, Formula's share interest in Magic was diluted from 47% to 45%.

NOTE 9:- SUBSEQUENT EVENTS

a. On November 12, 2018 Michpal acquired 80% of the share capital of Effective Solutions Ltd. for cash consideration of approximately $6,529. Effective Solutions Ltd. is an Israeli company which provides consulting services in the fields of operational cost savings and procurement, as well as salary control and monitoring.

b. In December 2018 Formula declared a cash dividend of approximately $5,011 million (or $0.34 per share) to shareholders of record on December 31, 2018 that was paid on January 16, 2019.

c. On January 22, 2019 Matrix acquired 80% of the share capital of Dana Engineering Ltd. in Israel for a cash consideration of approximately $14,000. Matrix and the seller hold mutual Call and Put options respectively for the remaining 20% interest in Dana Engineering during the first two years from the acquisition. Dana Engineering provides project management services in the field of national infrastructure.

d. On February 20, 2019 Matrix acquired 100% of the share capital of MedaTech Ltd. in Israel for a cash consideration of approximately $23,600. MedaTech is Israel's leading Business Partner of Priority ERP with over 1,000 customers in a variety of verticals.

\- - - - - - - - - - - - - - - - - -

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion and analysis that follow contain "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which reflect our current views with respect to future events and financial results. These include statements regarding our earnings, projected growth and forecasts, and similar matters that are not historical facts. We remind shareholders and investors that forward-looking statements are merely predictions and are therefore inherently subject to uncertainties and other factors which could cause the actual future events or results to differ materially from those described in the forward-looking statements.

The condensed interim consolidated financial statements as of, and for the nine-month period ended, September 30, 2018, which are attached to the Report of Foreign Private Issuer on Form 6-K to which this Management's Discussion and Analysis of Financial Condition and Results of Operations is attached as an exhibit, have been prepared in U.S. dollars and in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. All references herein to "dollars" or "$" are to U.S. dollars and all references herein to "NIS" are to New Israeli Shekels. The foregoing interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 20-F for the year ended December 31, 2017, or our 2017 Form 20-F, which we filed with the Securities and Exchange Commission, or SEC, on May 15, 2018. Our results of operations for the nine months ended September 30, 2018 are not necessarily indicative of our results of operations for the full 2018 fiscal year.

Unless otherwise mentioned or unless the context requires otherwise, all references in this Management's Discussion and Analysis of Financial Condition and Results of Operations to the "Company," "our company," "us," "we," "our" and the "Formula Group" are to Formula Systems (1985) Ltd., an Israeli company, and its consolidated subsidiaries and affiliates, and references to "Formula" refer to Formula Systems (1985) Ltd. alone. Our operations are currently conducted through our subsidiaries— Matrix IT Ltd., or Matrix, Sapiens International Corporation N.V., or Sapiens, Magic Software Enterprises Ltd., or Magic Software, Michpal Micro Computers (1983) Ltd., or Michpal, and InSync Staffing Solutions, Inc., or InSync— and our affiliated company TSG Advanced IT Systems, Ltd., or TSG, in which we hold a 50% equity interest.

Overview

We are a global software solutions and IT professional services holdings company that is principally engaged through our directly held investees in providing proprietary and non-proprietary software solutions and IT professional services, software product marketing and support, computer infrastructure and integration solutions and learning and integration. We deliver our solutions in over 50 countries worldwide to customers with complex IT services needs, including a number of "Fortune 1000" companies.

Since our inception, we have acquired effective controlling interests, and have invested, in companies that are engaged in the IT solutions and services business.

Other than in our joint control of TSG, in which each of our company and Israeli Aerospace Industries Ltd. holds 50% of its voting power, we currently have effective control under IFRS 10 in each of our other investees— Matrix, Sapiens, Magic Software, Michpal and InSync— despite our lack of absolute majority voting power in Matrix, Magic Software and Sapiens. As a result of our effective control in these investees and in accordance with IFRS, we have consolidated their financial results with ours throughout the periods covered by the accompanying interim consolidated financial statements.

Except for providing our investees with our management, technical expertise and marketing experience to help them create a consecutive positive economic impact and long-term value and direct their overall strategy through our active involvement, we do not conduct independent operations at our parent company level. Our operating results are, and have been, directly influenced by the business operations of our subsidiaries and affiliated company.

We recognize revenues in two categories: the delivery of software services and the delivery of proprietary software solutions and related services. All of our investees recognize revenues from the delivery of software services, and most of them recognize revenues in both revenue categories. For ease of reference, we have separated our subsidiaries into these categories in accordance with the category in which each subsidiary has earned most of its revenues (although each type of revenue is nevertheless recorded according to actual revenue type, rather than based on strict, subsidiary-demarcated categories).

Our functional and reporting currency

The currency of the primary economic environment in which our operations and certain of our subsidiaries' operations are conducted is the dollar. Thus, our functional currency and that of certain of our subsidiaries is the dollar. Formula has elected to use the dollar as its reporting currency for all periods presented in the accompanying interim consolidated financial statements.

Assets, including fair value adjustments upon acquisition, and liabilities of an investee which is a foreign operation, are translated at the closing rate at each reporting date. Profit or loss items are translated at average exchange rates for all periods presented. The resulting translation differences are recognized in other comprehensive income (loss).

Intragroup loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in the foreign operation and, accordingly, the exchange rate differences from these loans (net of the tax effect) are recorded in other comprehensive income (loss).

Upon the full or partial disposal of a foreign operation resulting in loss of control in the foreign operation, the cumulative gain (loss) from the foreign operation that had been recognized in other comprehensive income is transferred to profit or loss. Upon the partial disposal of a foreign operation that results in the retention of control in the subsidiary, the relative portion of the amount recognized in other comprehensive income is reattributed to non-controlling interests.

Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange rate differences, other than those capitalized to qualifying assets or accounted for as hedging transactions in equity, are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

For those subsidiaries whose functional currency has been determined to be their local currency, assets and liabilities are translated at period-end exchange rates and statement of income items are translated at average exchange rates prevailing during the period. Such translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss) in equity.

Critical accounting policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of our financial statements requires us, in certain circumstances, to make estimations, assumptions and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities within the reporting period. We have based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Please see our 2017 Form 20-F for a discussion of our critical accounting policies and estimates. Except for the adoption of new standards effective as of January 1, 2018, which are described in Note 3 to the accompanying interim consolidated financial statements, there have been no changes in our critical accounting policies as compared to what we previously disclosed in the 2017 Form 20-F.

As described in Note 3 to our accompanying interim consolidated financial statements, we adopted IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" for the first time effective as of January 1, 2018, which required certain changes to our previous financial statements. Several other IFRS amendments and interpretations apply to our company for the first time in 2018 but do not have an impact on our interim condensed consolidated financial statements.

Operating Results

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

Revenues. Revenues in the nine-month period ended September 30, 2018 increased by 11.2%, to $1,099.3 million, from $988.6 million in the nine months ended September 30, 2017. Revenues from the two categories of our operations were as follows: revenues from the delivery of software services increased by 12.1%, from $737.9 million in the nine-month period ended September 30, 2017 to $826.9 million in the nine-month period ended September 30, 2018; and, revenues from the sale of our proprietary software products and related services increased by 8.7%, from $250.7 million in the nine-month period ended September 30, 2017 to $272.4 million in the nine month-ended period September 30, 2018.

Software services revenues

The increase in software services revenues was recorded across the following of our investees reporting under this revenue stream— Matrix and Magic Software— and was primarily due to growth in their revenues as described below:

Matrix:

Matrix's revenues increased from NIS 2,083 million (approximately $574 million) in the nine-month period ended September 30, 2017 to NIS 2,297.3 million (approximately $646.1 million) in the nine-month period ended September 30, 2018, reflecting an increase of 9.9% when measured in NIS, Matrix's local currency (compared to 12.2% when measured in U.S dollars due to the devaluation of the U.S Dollar versus the NIS). The increase in Matrix's revenues was due to an increase in all of Matrix's principal areas of operations and due to the inclusion for the first time of the results of operations of mainly Alius Corp (consolidated as of January 18, 2018), Pleasant Valley Business Solutions, LLC (consolidated as of March 13, 2018) and of Integrity Ltd (consolidated as of July 25, 2018). The increase was primarily attributable to: an increase of 9.0% in Matrix's software solutions and services in its Israeli business line from NIS 1,293.1 million (approximately $356.2 million) in the nine-month period ended September 30, 2017 to NIS 1,409.4 million (approximately $395.9 million) in the nine-month period ended September 30, 2018; an increase of 6.3% in Matrix's computer infrastructure and integration solutions from NIS 349.0 million (approximately $96.2 million) in the nine-month period ended September 30, 2017 to NIS 370.8 million (approximately $104.2 million) in the nine-month period ended September 30, 2018; and an increase of 17.8% in Matrix's software solutions and services in the United States from NIS 245.3 million (approximately $67.6 million) in the nine-month period ended September 30, 2017 to NIS 298.3 million (approximately $83.8 million) in the nine-month period ended September 30, 2018.

Magic Software:

Magic Software's revenues, reported under this revenue stream, increased by 13.5% from $141.6 million to $160.7 million, primarily attributable to increased demand for the professional services offerings in Israel and in the U.S by all of our businesses.

InSync:

InSync's revenues remained stable at a level of $22.3 million in the nine-month periods ended September 30, 2017 and 2018.

Proprietary software products and related services revenues

The increase in revenues from proprietary software products and related services was attributable to the following results involving Sapiens, Magic Software and Michpal:

Sapiens:

Sapiens' revenues increased from $197.6 million in the nine-month period ended September 30, 2017 to $216.4 million in the nine-month period ended September 30, 2018, reflecting an increase of 9.5%. The net increase in revenues of approximately $18.8 million for the nine-month period ended September 30, 2018 was attributable to: (i) additional revenues from entities acquired by Sapiens in 2018 or 2017, which contributed $29.4 million towards the increase, primarily from: Adaptik, which was acquired by Sapiens in February 2018, and StoneRiver, which was acquired in February 2017; and (ii) organic growth in Sapiens' revenues (excluding the impact of the specific factors described in the following sentence, which negatively impacted, and caused an overall decrease in our revenues from existing customers), which contributed approximately $7.2 million towards the revenue growth in the nine-month period ended September 30, 2018 compared to the corresponding period in 2017. Sapiens' increased revenues in the nine months ended September 30, 2018 were offset, in part, by (i) a decreases in Sapiens' revenues in an amount of $4.7 million attributable to the downsizing of Sapiens' non-insurance and financial services activities in Japan, and (ii) a decrease in Sapiens' revenues in an amount of $13.5 million due to the cancelation and downsizing of the scope of development projects with three customers, in the US, South Africa and Poland, respectively.

In October 2017, Sapiens signed an agreement with a 10% shareholder of Sapiens Japan Co., its 90%-owned Japanese subsidiary, under which such shareholder's independent company will separately provide all professional services requested by Sapiens' customers in Japan. As a result of this arrangement, Sapiens' revenues from non-insurance and financial professional services in Japan have begun to, and are expected to continue to, decrease significantly. In connection with this arrangement, Sapiens terminated all employment agreements of its Japanese subsidiary's employees (most of whom were then hired by the shareholder's new company). Despite the new arrangement, Sapiens will continue to provide maintenance services only to existing Japanese customers who had purchased licenses for its eMerge product.

Magic Software:

Magic Software's revenues, reported under this revenue stream, increased by 3.2% from $48.8 million in the nine- month period ended September 30, 2017 to $50.4 million in the nine-month period ended September 30, 2018. The increase in Magic Software's revenues was attributable to increased demand for the Magic xpi Integration Platform and Magic xpa development platform, which grew by $3.8 million compared to the nine-month period ended September 30, 2017. The increase was offset in part by a decrease of $1.9 million in Magic Software's revenues from its vertical packaged software solution Leap™ following the cancelation of a development project with a customer in Africa.

Michpal:

Michpal's revenues increased by 30% from $4.4 million in the nine-month period ended September 30, 2017 to $5.6 million in the nine-month period ended September 30, 2018. The increase in Michpal's revenues was primarily attributable to the launch of its new product and new service line – "Michpal Pension" and "Michpal PensionPlus".

A breakdown of our overall revenues into proprietary software products and related services and software services revenues for the nine months ended September 30, 2017 and 2018, the percentage those respective categories of revenues constituted out of our total revenues in those periods, and the percentage change for each such category of revenues from one such period to the other, are provided in the below table:

	Nine months ended September 30, 2017		**Period-over period**	**Nine months ended September 30, 2018**	
	Revenues	**Percentage**	**change**	**Revenues**	**Percentage**
Revenue category			($ in thousands)		
Proprietary software products and related services	250,704	25.4%	8.7%	272,400	24.8%
Software services	737,896	74.6%	12.1%	826,888	75.2%
Total	988,600	100%	11.2%	1,099,288	100%

Cost of Revenues. Cost of revenues consists primarily of wages, personnel expenses, other personnel-related expenses of software consultants, subcontractors and engineers, royalties and licenses payable to third parties, amortization of capitalized software, and hardware and other materials costs. Cost of revenues increased by 10.7% from $772.6 million in the nine-month period ended September 30, 2017 to $854.9 million in the nine-month period ended September 30, 2018. As a percentage of total revenues, cost of revenues constituted 78.2% and 77.8% in the nine-month periods ended September 30, 2017 and 2018, respectively.

Our proprietary software solutions and related services sales are generally characterized by a higher gross margin than sales of our software services. The cost of revenues for proprietary software solutions and related services increased from $149.1 million in the nine-month period ended September 30, 2017 to $ 154.6 million in the nine-month period ended September 30, 2018. As a percentage of our proprietary software solutions and related services revenues, costs of revenues for proprietary software solutions and related services decreased to 56.8% in the nine-month period ended September 30, 2018 from 59.5% in the nine-month period ended September 30, 2017.

The cost of revenues for software services increased from $623.5 million in the nine-month period ended September 30, 2017 to $700.2 million in the nine-month period ended September 30, 2018. As a percentage of software services revenues, cost of revenues for software services remained relatively stable in the nine-month periods ended September 30, 2017 and 2018, at 84.7% in the nine-month period ended September 30, 2018 compared to 84.5% in the nine-month period ended September 30, 2017.

The increase in our absolute cost of revenues was attributable, in the aggregate, to the following changes involving Matrix, Sapiens, Magic Software and Michpal:

Matrix:

Matrix's cost of revenues increased by 12.4% from $492.5 million in the nine months ended September 30, 2017 to $553.5 million in the nine months ended September 30, 2018. The increase in percentage and in absolute cost of revenues was related to the increase in Matrix's revenues during the nine-month period ended September 30, 2018 relative to the nine-month period ended September 30, 2017. The level of Matrix's cost of revenues as a percentage of its revenues remained relatively stable at 86.0% in the nine-month period ended September 30, 2018, compared to 85.8% in the nine-month period ended September 30, 2018.

Sapiens:

Sapiens' cost of revenues increased by 4.1% from $129.3 million in the nine-month period ended September 30, 2017 to $134.6 million in the nine-month period ended September 30, 2018. Cost of revenues decreased, however, as a percentage of revenues during the nine-month period ended September 30, 2018, to 62.2%, as compared to 65.4% during the nine-month period ended September 30, 2017. The increase in absolute cost of revenues of $5.3 million is in line with the increase in revenues for the period. The decrease in cost of revenues as a percentage of revenues was primarily attributable to (i) the completion of two cost-reduction programs that Sapiens implemented in 2017, (ii) the completion of the integration of StoneRiver, which Sapiens acquired in February 2017, which resulted in doubling StoneRiver's profitability and (iii) the increase in Sapiens' offshore activities for both Delivery and R&D, which positively impacted its overall profitability in 2018 compared to 2017.

Magic Software:

Magic Software's cost of revenues increased by 11.7% from $130.0 million in the nine-month period ended September 30, 2017 to $145.2 million in the nine-month period ended September 30, 2018. Magic Software's cost of revenues remained relatively stable at 68.8% in the nine-month period ended September 30, 2018, compared to 68.3% in the nine-month period ended September 30, 2017.

Michpal:

Michpal's cost of revenues increased by 58.8% from $1.2 million in the nine-month period ended September 30, 2017 to $1.8 million in the nine-month period ended September 30, 2018. The increase in cost of revenues was primarily attributable to: (i) an increase in payroll and employee-related expenses resulting from an increase in Michpal's headcount of support and professional services employees, and (ii) an increase in amortization of capitalized software development costs, both of which related to the launch of its new product and new service line – "Michpal Pension" and "Michpal PensionPlus".

Cost of revenues for the nine months ended September 30, 2018 and 2017 include insignificant amounts of stock-based compensation.

Research and Development Costs, net. Research and development, or R&D, expenses consist primarily of wages and related expenses and, to a lesser degree, consulting fees that we pay to employees and independent contractors, respectively, engaged in research and development. Research and development expenses, net, consist of research and development expenses, gross, less capitalized software costs.

Research and development expenses, gross, increased from $36.7 million in the nine-month period ended September 30, 2017 to $37.8 million in the nine-month period ended September 30, 2018. In the nine-month period ended September 30, 2018, we capitalized software costs of $6.5 million, compared to $7.3 million in the nine months ended September 30, 2017. Capitalization of software costs in the nine-month periods ended September 30, 2018 and 2017 was attributable to our subsidiaries engaged in providing proprietary software solutions (i.e., Magic Software and certain of its subsidiaries, Sapiens and certain of its subsidiaries, and Michpal). Research and development expenses, net, increased from $29.5 million in the nine-month period ended September 30, 2017 to $ 31.3 million in the nine-month period ended September 30, 2018.

As a percentage of revenues, research and development expenses, net, remained relatively stable at 3.0% in the nine-month period ended September 30, 2017 and 2.9% in the nine-month period ended September 30, 2018. Research and development expenses for the nine-month periods ended September 30, 2018 and 2017 included insignificant amounts of stock-based compensation.

Selling, Marketing General and Administrative Expenses. Selling, marketing, general and administrative, or SMG&A, expenses consist primarily of cost of salaries, severance and related expenses of sales, marketing, management and administrative employees, travel expenses, selling expenses, rent, utilities, communications expenses, expenses related to external consultants, depreciation, amortization and other expenses. Selling, marketing, general and administrative expenses increased from $133.5 million in the nine-month period ended September 30, 2017 to $136.0 million in the nine-month period ended September 30, 2018. As a percentage of revenues, SMG&A decreased to 12.4% in the nine-month period ended September 30, 2018 compared to 13.5% in the nine-month period ended September 30, 2017.

The slight increase in the cost of SMG&A was attributable, in the aggregate, to the following changes involving Matrix, Sapiens, Magic Software and Michpal:

Matrix:

Matrix's SMG&A expenses increased to $49.4 million for the nine-month period ended September 30, 2018 compared to $44.4 million for the nine-month period ended September 30, 2017. As a percentage of revenues, SMG&A remained stable at 7.6% in the nine-month period ended September 30, 2018 compared to 7.7% in the nine-month period ended September 30, 2017. Matrix's SMG&A in 2018 included costs amounting to $1.2 million related to the valuation of contingent liabilities in acquired subsidiaries.

Sapiens:

Sapiens' SMG&A expenses decreased to $41.9 million for the nine-month period ended September 30, 2018 compared to $46.5 million for the nine-month period ended September 30, 2017, representing a decrease of $4.6 million, or 9.9%. This decrease was mainly attributable to a reduction in SMG&A expenses associated with Sapiens' cost reduction and reorganization program, which primarily relates to costs of employee terminations and reduction in leasing facilities globally, including the downsizing of Sapiens' non-insurance and financial services activities in Japan in the nine months ended September 30, 2018. Accordingly, Sapiens' SMG&A as a percentage of revenues decreased from 23.5% in the nine-month period ended September 30, 2017 to 19.4% in the nine-month period ended September 30, 2018.

Magic Software:

Magic Software's SMG&A expenses increased to $39.1 million for the nine-month period ended September 30, 2018 compared to $36.8 million for the nine-month period ended September 30, 2017, representing an increase of $2.3 million, or 6.1%. This increase was mainly attributable to: (i) an increase in Magic Software's sales commission expenses, which is consistent with the increase in Magic's revenues, and (ii) an increase in headcount of sales and marketing employees.

Selling, marketing general and administrative expenses for each of the nine-month periods ended September 30, 2017 and 2018 included $3.0 million of stock-based compensation expenses.

Operating Income. Our operating income increased from $53.0 million in the nine-month period ended September 30, 2017 to $77.1 million in the nine-month period ended September 30, 2018. As a percentage of revenues, our operating income increased from 5.4% in the nine-month period ended September 30, 2017 to 7.0% in the nine-month period ended September 30, 2018. The increase in our operating income during the nine-month period ended September 30, 2018 relative to the nine-month period ended September 30, 2017 as an absolute amount was attributable to the various revenues, cost of revenues and operating expenses trends described above.

Financial expenses, net of financial income. Financial expenses, net of financial income decreased from $17.0 million in the nine-month period ended September 30, 2017 to $7.4 million in the nine-month period ended September 30, 2018. Financial expenses decreased from $17.3 million in the nine-month period ended September 30, 2017 to $9.1 million in the nine-month period ended September 30, 2018. Financial expenses are influenced by various factors, including: our cash balances; loan balances; outstanding debentures; changes in liabilities related to business combinations: changes in the exchange rate of the NIS against the dollar; changes in the exchange rate of the dollar against the Euro; and changes in the Israeli consumer price index, or CPI. The decrease in net financial expenses in the nine months ended September 30, 2018 was primarily attributable to: (i) a decrease in financial expenses from $5.5 million recorded during the nine-month period ended September 30, 2017 compared to financial income of $2.2 million recorded during the nine-month period ended September 30, 2018 with respect to the revaluation of Formula's Series A Secured Debentures, which are linked to the NIS, due to the devaluation of the NIS relative to the USD; (ii) a decrease in Magic Software's financial expenses related to exchange rate differences by an amount of $1.2 million; and (iii) a decrease in Matrix's financial expenses from $5.4 million recorded during the nine-month period ended September 30, 2017 to $3.6 million recorded during the nine-month period ended September 30, 2018, mainly attributable to the decrease in Matrix's effective interest rate applied over its short- and long-term bank loans and credit.

Group's share of profits of companies accounted for at equity, net. Our share of profits of companies accounted for at equity, net, decreased from $0.5 million of profits in the nine-month period ended September 30, 2017 to $66 thousand of loss in the nine-month period ended September 30, 2018. Our share of profits of companies accounted for at equity in the nine months ended September 30, 2017 and 2018 was attributable to TSG.

Taxes on Income. Taxes on income increased from $11.8 million in the nine-month period ended September 30, 2017 to $16.0 million in the nine-month period ended September 30, 2018. The increase in our expense from taxes on income was mainly attributable to Sapiens' increase in tax expense from tax income of $1.6 million recorded during the nine-month period ended September 30, 2017 to a tax expense of $2.0 million recorded during the nine-month period ended September 30, 2018. Sapiens' shift to a larger tax expense in the nine- month period ended September 30, 2018 compared to the corresponding period of 2017 was mainly attributable to the one-time effect of $5.0 million of tax benefit recorded in 2017 resulting from the remeasurement of Sapiens' deferred tax liability in respect of its US subsidiaries due to a decrease in the federal corporate income tax rate following the enactment of the Tax Cuts and Jobs Act in the United States in December 2017, as well as an increase in deferred tax assets recorded in 2017 in respect of the one-time cost reduction and reorganization program.

Net income attributable to redeemable non-controlling interests. Net income attributable to redeemable non-controlling interests amounted to $4.7 million in the nine-month period ended September 30, 2018, as compared to $2.1 million in the nine-month period ended September 30, 2017. Net income attributable to redeemable non-controlling interests includes the redeemable non-controlling interests held by other shareholders in our consolidated companies, which were not wholly-owned by Formula during each of the periods indicated, as to which we have granted put options to sell part or all of their capital interests in our subsidiaries.

Net income attributable to non-controlling interests. Net income attributable to non-controlling interests includes the non-controlling interests held by other shareholders in our consolidated companies, which are not wholly-owned by Formula during each of the periods indicated. Net income attributable to non-controlling interests increased from $16.8 million in the nine-month period ended September 30, 2017 to $27.4 million in the nine-month period ended September 30, 2018, mainly due to (i) the increase in Sapiens' net income attributable to its shareholders, from $2.9 million of loss during the nine-month period ended September 30, 2017 to $9.3 million of net income during the nine-month period ended September 30, 2018, and (ii) an increase in Magic Software's net income attributable to its shareholders, from $11.6 million during the nine-month period ended September 30, 2017 to $15.3 million of net income during the nine-month period ended September 30, 2018.

Impact of Inflation and Currency Fluctuations on Results of Operations

Our financial statements are stated in U.S. dollars, our functional currency. However, most of our revenues and expenses from our software services revenue line are denominated in NIS and a substantial portion of our revenues and costs from our proprietary software products and related services revenue line are incurred in other currencies, particularly NIS, Euros, Japanese yen, Indian rupee and the British pound. We also maintain substantial non-U.S. dollar balances of assets, including cash, accounts receivable, and liabilities, including accounts payable, debentures and debt to financial institutions Therefore, fluctuations in the value of the currencies in which we do business relative to the U.S. dollar may adversely affect our business, results of operations and financial condition. For financial reporting purposes, we translate all non-U.S. dollar denominated transactions into dollars using the average exchange rate over the period during which the transactions occur, in accordance with IFRS. Therefore, we are exposed to the risk that the devaluation of the NIS relative to the U.S. dollar may reduce the revenue growth rate and profitability for our software services in dollar terms. On the other hand, a significant portion of our revenues from proprietary software products and related services is currently mainly denominated in U.S dollar, Euros, Japanese yen, Indian rupee and the British pound, whereas a substantial portion of our expenses relating to those products, principally salaries and related personnel expenses, are denominated in NIS. As a result, the devaluation of the Euro or those other currencies relative to the dollar reduces the revenue growth rate and profitability for our proprietary software products and related services in dollar terms, thereby adversely affecting our operating results. Contrary to the trend involving software services, the devaluation of the NIS relative to the dollar decreases the relative value of the NIS-denominated operating costs related to our proprietary software product revenues, and, therefore, increases our profitability and partially compensates for the negative effect that this movement has on our revenues and our profitability from our software services.

Since most of our expenses are incurred in NIS, the dollar cost of our operations also rises as a result of any increase in the rate of inflation in Israel, to the extent that such inflation is not offset, or is only offset on a lagging basis, by the devaluation (if any) of the NIS against the dollar during a relevant period of time.

An increase in the rate of inflation in Israel may also have a material adverse effect on our financial results by increasing our operational expenses, as certain of our operating lease and rent agreements are denominated in NIS and are generally linked to the Israeli CPI. Therefore, to the extent that the Israeli CPI rises, so will our operational expenses.

Though, to date, we have not engaged in significant currency hedging transactions, we do periodically engage in certain economic hedging in order to help protect against fluctuations in foreign currency exchange rates. Instruments that we use to manage currency exchange risks may include foreign currency forward contracts. Instruments are used selectively to manage risks, but there can be no assurance that we will be fully protected against material foreign currency fluctuations. We do not use these instruments for speculative or trading purposes.

Effective Corporate Tax Rates in Israel

Tax regulations have a material impact on our business, particularly in Israel where we have the headquarters of certain of our subsidiaries and affiliate. For a summary of the current tax structure applicable to companies in Israel, in particular with regard to its effect on us, please see "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Effective Corporate Tax Rate in Israel" in the 2017 Form 20-F. The above-referenced summary also describes Israeli government programs from which we, and some of our subsidiaries, benefit.

Liquidity and Capital Resources

Since inception, we have financed our growth and business primarily through cash provided by operations and through public debt and equity offerings, as well as through private and public debt and equity offerings of our subsidiaries. In addition, we finance our business operations through short-term and long-term loans and borrowings available under our credit facilities.

Current Outlook

We had cash and cash equivalents, short-term investments and marketable securities of $260.8 million and $283.7 million at December 31, 2017 and September 30, 2018, respectively. At December 31, 2017 and September 30, 2018, we had indebtedness to banks and others of $206.4 million and $217.5 million, respectively, of which $70.8 million and $128.5 million were current liabilities and $135.6 million and $89.1 million were long-term liabilities as of those respective dates. In addition, as of September 30, 2018, Formula had $44.2 million and $47.9 million of short-term and long-term liabilities, respectively, outstanding under our debentures, including secured debentures and convertible debentures that we sold in a public offering in Israel in September 2015, and secured debentures that we sold in a private placement in January 2018. In addition, we had $10.6 million and $68.5 million of short-term and long-term liabilities, respectively, outstanding under Sapiens' debentures (unsecured and non-convertible), that were sold in a public offering and a private placement in Israel in September 2017. Please see "Sources of Financing" below.

As of December 31, 2017, we had $48.6 million of cash and cash equivalents that was held outside of Israel and that would have been subject to income taxes if distributed as a dividend. We do not expect that there was any material change to that amount as of September 30, 2018.

Sources of Financing

Please see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Sources of Financing" in the 2017 Form 20-F for a description of our sources of financing, including: (i) the secured NIS 200 million loan (approximately $57.6 million) that we received from a leading Israeli institutional investor; (ii) our public offering and private placement of debentures in Israel; and (iii) the bank credit facilities and issuances of debt instruments by our subsidiaries and affiliated companies, in accordance with their cash requirements.

Cash Provided by Operating Activities

Net cash provided by our operating activities decreased from $42.7 million in the nine-month period ended September 30, 2017 to $27.0 million in the nine-month period ended September 30, 2018.

Net cash provided by operating activities in the nine-month period ended September 30, 2018 consisted primarily of the cash generated by our subsidiaries' ongoing operating activities and the $53.7 million of net income stemming therefrom, as adjusted downwards for non-cash operating activity line items, including changes in operating assets and liabilities. The material downwards adjustments in cash flow reflecting non-cash operating activity line items included adjustments due to (i) an increase in trade receivables in an amount of $39.4 million, (ii) an increase in other current and long-term accounts receivable in an amount of $9.1 million, (iii) an increase in other accounts payable, employees and payroll accrual and other long-term liabilities in an amount of $8.1 million, (iv) changes in deferred taxes, net, in an amount of $4.7 million, (v) changes in value of debentures, net in an amount of $3.3 million and (vi) changes in value of short-term and long-term loans from banks and other and deposits, net in an amount of $2.8 million . Material upwards adjustments in cash flow for non-cash activity, including changes in operating assets and liabilities, consisting of adjustments due to (a) depreciation and amortization of capitalized research and development assets, other intangible assets (mainly customer relations) and property, plants and equipment, in an aggregate amount of $36.0 million, (b) stock-based compensation expenses, in an amount of $3.3 million, and (c) a change in liability in respect of business combinations, in an aggregate amount of $2.7 million.

Net cash provided by operating activities in the nine-month period ended September 30, 2018 was primarily comprised of $15.8 million provided by Sapiens, $20.3 million provided by Magic Software and $2.8 million provided by Insync, offset by $3.8 million used by Matrix and $8.0 million used by Formula.

Cash Provided by Financing Activities

Cash provided by financing activities amounted to $51.8 million and $38.6 million in the nine-month periods ended September 30, 2018 and 2017, respectively. The cash provided by financing activities in the nine-month period ended September 30, 2018 mainly reflected the cumulative effect of the following financing-related transactions that occurred over the course of that period: (i) receipt of a short-term bank credit, net in an amount of $52.4 million, (ii) offering and sale of debentures in an aggregate amount of $45.4 million, and (iii) the offering, issuance and sale of an aggregate of $25.4 million of ordinary shares of Magic Software, as offset, in part, by (a) repayment of long-term loans from banks and others in an amount of $32.1 million, (b) distribution of a dividend in an amount of $24.5 million to the non-controlling interests and redeemable non-controlling interests in our subsidiaries, (c) repayment of debentures in an amount of $9.4 million, and (d) distribution of a dividend to Formula's shareholders in an amount of $5.0 million.

Cash Used in Investing Activities

Net cash used in our investing activities was $49.6 million in the nine-month period ended September 30, 2018 compared to $98.6 million in the nine-month period ended September 30, 2017.

Net cash used in investing activities in the nine-month period ended September 30, 2018 was attributable to (i) expenditures (net of cash acquired) with respect to business acquisitions in an aggregate amount of $28.5 million, (ii) purchase of property and equipment in an amount of $9.1 million, (iii) payments to former shareholders of consolidated companies in an aggregate amount of $7.3 million, and (iv) capitalization of software development and other costs in an aggregate amount of $6.5 million, offset, in part, by proceeds from the maturity and sale, net of investment, of debt instruments (at fair value through other comprehensive income), in an amount of $2.0 million.

Off-Balance Sheet Arrangements

We are not a party to any off-balance sheet arrangements. In addition, we have no unconsolidated special purpose financing or partnership entities that are likely to create material contingent obligations.