

Magic Software Enterprises Ltd.

CODE OF BUSINESS CONDUCT AND ETHICS

The Board of Directors of Magic has adopted this Code of Business Conduct and Ethics (“Code”) of our company and its subsidiaries. This Code is applicable to all of our officers, directors and employees.

1. PUTTING THE CODE OF BUSINESS CONDUCT AND ETHICS TO WORK

About the Code of Business Conduct and Ethics; Compliance with Laws and Regulations

We at Magic are committed to the highest standards of business conduct in our relationships with each other and with our customers, suppliers, shareholders and others. This requires that we conduct our business in accordance with all applicable laws and regulations and in accordance with the highest standards of business ethics. Executive and financial officers have also leadership responsibilities that include creating a culture of high ethical standards and commitment to compliance; maintaining a work environment that encourages employees to raise concerns; and promptly addressing employee compliance concerns. Our Code helps each of us in this endeavor by providing a statement of the fundamental principles and key policies and procedures that govern the conduct of our business.

Our business depends on the reputation of our company and its employees for integrity and principled business conduct. Thus, in many instances, the policies referenced in this Code go beyond the requirements of the law.

The Code is a statement of policies for individual and business conduct and does not, in any way, constitute an employment contract or assurance of continued employment and does not create any rights in any employee, customer, supplier, competitor, shareholder or any other person or entity.

2. RESPONSIBILITY TO OUR ORGANIZATION

Our employees are expected to dedicate their best efforts to our company’s business and to avoid any conflicts with the interests of our company.

2.1 Conflicts of Interest

In order to maintain the highest degree of integrity in the conduct of our business and to maintain your independent judgment, you must avoid any activity or personal interest that creates or appears to create a conflict between your interests and the interests of the Magic. A conflict of interest occurs when your private interests interfere in any way, or even appear to interfere, with the interests of our company as a whole. A conflict situation can arise when you take actions or have interests that make it difficult for you to perform your work in the Company, objectively and effectively. You should never act in a manner that could cause you to lose your independence and objectivity or that could adversely affect the confidence of our customers, suppliers or fellow employees in the integrity of our company or our procedures. Although we cannot list every conceivable conflict, following are some common examples that illustrate actual or apparent conflicts of interest that should be avoided:

2.1.1 Improper Personal Benefits from the Company

Conflicts of interest arise when an employee, officer or director, or a member of his or her family, receives improper personal benefits as a result of his or her position in our company. You may not accept any benefits from our company that have not been duly authorized and approved pursuant to our policies and procedures, including any loans or guarantees of your personal obligations.

2.1.2 Business Arrangements with Magic

Without prior written approval from the [Chief Executive Officer], you may not participate in a joint venture, partnership or other business arrangement with Magic. (Executive and financial officers and members of the Board must obtain the prior written approval of the Audit Committee before participating in such an arrangement.)

2.1.3 Family Members Working in the Industry

You may find yourself in a situation where your spouse or significant other, your children, parents, or in-laws, or someone else with whom you have a familial relationship is a competitor, supplier or customer of our company or is employed by one. Such situations are not prohibited, but they call for extra sensitivity to security, confidentiality and conflicts of interest.

2.1.4 Corporate Opportunities

As employees, officers and directors of Magic, we owe a duty to our company to advance its legitimate interests when the opportunity to do so arises. You may not take for yourself

personally opportunities that are discovered through the use of corporate property, information or position or use corporate property, information or position for personal gain. Nor may you compete with our company.

2.2 Protection and Proper Use of Magic Assets

We each have a duty to protect our company's assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on our profitability. We should take measures to prevent damage to and theft or misuse of company property. When you leave our company, all company property must be returned. Incidental and occasional personal use of our electronic mail and telephone systems is permitted. However, subject to local law, you should be aware that even personal messages on our computer and telephone systems are our company's property and you should therefore have no expectation of personal privacy in connection with your use of these resources.

2.3 Magic Books and Records

You must complete all company documents accurately, truthfully and in a timely manner, including all travel and expense reports. When applicable, documents must be properly authorized. You must record our company's financial activities in compliance with all applicable laws and accounting practices. The making of false or misleading entries, records or documentation is strictly prohibited. You must never create a false or misleading report or make a payment or establish an account on behalf of our company with the understanding that any part of the payment or account is to be used for a purpose other than as described by the supporting documents.

2.4 Disclosures in Periodic Reports

As a public company, Magic is required to file various periodic reports with the Securities and Exchange Commission, the Israel Securities Authority and the Tel Aviv Stock Exchange. It is our policy to make full, fair, accurate, timely and understandable disclosure in compliance with all applicable laws and regulations in all required periodic reports.

2.5 Confidential Information

All employees may learn, to a greater or lesser degree, facts about our business, plans, operations or "secrets of success" that are not known to the general public or to competitors.

Confidential information includes all non-public information that might be of use to competitors, or harmful to our company or our customers, if disclosed. During the course of performing your responsibilities, you may obtain information concerning possible transactions with other companies or receive confidential information concerning other companies, which we may be under an obligation to maintain as confidential.

You must maintain the confidentiality of information entrusted to you by our company or our customers, except when disclosure is authorized or legally mandated. Employees who possess or have access to confidential information or trade secrets must:

- Not use the information for their own benefit or the benefit of persons inside or outside of our company.
- Carefully guard against disclosure of that information to people outside our company . For example, you should not discuss such matters with family members or business or social acquaintances or in places where the information may be overheard, such as taxis, public transportation, elevators or restaurants.
- Not disclose confidential information to another employee unless the employee needs the information to carry out business responsibilities.

Your obligation to treat information as confidential does not end when you leave our company. Upon the termination of your employment, you must return everything that belongs to us, including all documents and other materials containing confidential information. You must not disclose confidential information to a new employer or to others after ceasing to be an employee. You may not disclose your previous employer's confidential information to us. Of course, you may use general skills and knowledge acquired during your previous employment.

2.6 Insider Trading

You are prohibited by our policy and the law from buying or selling securities of our company at a time when in possession of "material nonpublic information." This conduct is known as "insider trading." Passing such information on to someone who may buy or sell securities - known as "tipping" - is also illegal. The prohibition applies to our securities and to securities of other companies if you learn material nonpublic information about other companies, such as our affiliates, in the course of your duties for our company.

Information is "material" if (a) there is a substantial likelihood that a reasonable investor would find the information "important" in determining whether to trade in a security; or (b) the information, if made public, likely would affect the market price of a company's securities. Examples of types of material information include unannounced dividends, earnings, financial results, important personnel changes, business plans, possible mergers, acquisitions, divestitures or joint ventures, important litigation developments, and important regulatory, judicial or legislative actions. Information may be material even if it relates to future, speculative or contingent events and even if it is significant only when considered in combination with publicly available information.

Information is considered to be nonpublic unless it has been adequately disclosed to the public, which means that the information must be publicly disclosed, and adequate time must have

passed for the securities markets to digest the information. Examples of adequate disclosure include public filings with securities regulatory authorities and the issuance of press releases, and may also include meetings with members of the press and the public. A delay of one or two business days is generally considered a sufficient period for routine information to be absorbed by the market. Nevertheless, a longer period of delay might be considered appropriate in more complex disclosures.

Do not disclose material nonpublic information to anyone, including co-workers, unless the person receiving the information has a legitimate need to know the information for purposes of carrying out our business. If you leave the employ of our company, you must maintain the confidentiality of such information until it has been adequately disclosed to the public by our company.

3. FAIR DEALING

We depend on our company's reputation for quality, service and integrity. We must never take unfair advantage of others through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair dealing practice.

4. IMPLEMENTATION OF THE CODE

4.1 Responsibilities

While each of us is individually responsible for putting the Code to work, we need not go it alone. Our company has a number of resources, people and processes in place to answer our questions and guide us through difficult decisions.

Copies of this Code are available from the General Counsel. [A statement of compliance with the Code of Business Conduct and Ethics must be signed by all officers, directors and employees.]

4.2 Seeking Guidance

This Code cannot provide definitive answers to all questions. If you have questions regarding any of the policies discussed in this Code or if you are in doubt about the best course of action in a particular situation, you should seek guidance from your supervisor, the General Counsel or the other resources identified in this Code.

4.3 Reporting Violations

If you know of or suspect a violation of applicable laws or regulations, the Code, or our

related policies, you must immediately report that information to your supervisor.

Any employee of our company who becomes aware of any information concerning any conduct which he or she reasonably believes to constitute an accounting, auditing or internal control irregularity or impropriety, or to be a violation of laws regarding mail, wire or bank fraud, the rules and regulations of the SEC, any provision of law relating to fraud against stockholders, violations of our accounting practices or internal controls, or other concerns regarding questionable accounting or auditing matters, is required to promptly report such information pursuant to the procedure adopted by the Audit Committee of our Board of Directors. A copy of the procedure is found below.

No one will be subject to retaliation because of a good faith report of suspected misconduct. However, failure to report a suspected violation of the Code is itself a violation of the Code and could subject you to disciplinary action, up to and including termination.

4.4 Investigations of Suspected Violations

All reported violations will be promptly investigated and treated confidentially to the greatest extent possible. It is imperative that reporting persons not conduct their own preliminary investigations. Investigations of alleged violations may involve complex legal issues, and acting on your own may compromise the integrity of an investigation and adversely affect both you and the Company.

4.5 Discipline for Violations

We intend to use every reasonable effort to prevent the occurrence of conduct not in compliance with its Code and to halt any such conduct that may occur as soon as reasonably possible after its discovery. Any personnel who violate this Code or our other policies and procedures may be subject to disciplinary actions, up to and including discharge. In addition, disciplinary measures, up to and including discharge, may be taken against anyone who directs or approves infractions or has knowledge of them and does not promptly report and correct them in accordance with our policies.

4.6 Waivers of the Code

The Company will waive application of the policies set forth in this Code only where circumstances warrant granting a waiver, and then only in conjunction with any appropriate monitoring of the particular situation. Waivers of the Code for directors and executive officers may be made only by the Board of Directors as a whole or the Audit Committee and must be promptly disclosed as required by law or regulation.

4.7 No Rights Created

This Code is a statement of the fundamental principles and key policies and procedures that govern the conduct of our business. It is not intended to and does not create any rights in any employee, customer, supplier, competitor, shareholder or any other person or entity.

ACKNOWLEDGMENT FORM¹

I hereby acknowledge that I have received and read the Magic Code of Business Conduct and Ethics, and I understand its contents. I agree to comply fully with the standards, policies and procedures contained in the Code and the Company's related policies and procedures. I understand that I have an obligation to report to my supervisor or to the General Counsel any suspected violations of the Code that I am aware of. I acknowledge that the Code is a statement of policies for business conduct and does not, in any way, constitute an employment contract or assurance of continued employment.

Printed Name

Signature

Date

¹ See previous footnote.

PROCEDURE FOR REPORTING ACCOUNTING OR AUDITING CONCERNS

Recently you may have read about many changes being instituted by public companies in response to increased scrutiny by the United States Securities and Exchange Commission. Many of these changes are the result of provisions in the well-publicized law known as Sarbanes-Oxley.

The Audit Committee is established to assist the Board in monitoring (1) the integrity of the Company's financial statements, (2) the qualifications and independence of the Company's independent auditors, (3) the performance of the Company's internal audit function and independent auditors, and (4) the compliance by the Company with legal and regulatory requirements.

We are instituting a procedure by which any employee may report any complaints or concerns they may have regarding what they believe to be questionable accounting, internal accounting controls or auditing matters, or any other matters of legal or regulatory concern as set forth in the Company's Code of Business Conduct and Ethics. These matters can be reported to the Chairman of the Audit Committee, Mr. Itiel Efrat, by either emailing him at itiel@erb.co.il or sending a personal and confidential letter to him to 14 Hadkhalim Str. Kohav Yair. Any matters reported to Mr. Efrat may be reported on a confidential, anonymous basis if you so desire.

Any report submitted should contain the facts forming the basis of such employee's belief. The report should be sufficiently detailed to ensure a clear understanding of the issues raised. The report should be candid and set forth all of the information the employee knows regarding the allegation or concern, including the identity of individuals involved. If the report contains only unspecified unsupported allegations, it may not result in the commencement of an investigation. Particular care should be taken to comply with these requirements in instances where the report is made anonymously, as there may be limited or no opportunity to obtain information that is not initially supplied. As appropriate, an inquiry of the allegation or concern will be made under the direction of appropriate Company or Audit Committee personnel to gather the relevant facts and reach a timely and proper resolution of the matter.