MATRIX I.T. LTD

Periodic Report for 2022

This English translation from the Hebrew version of the Financial Statements has been made for convenience and information purposes only. In case of any conflict or discrepancy between the terms of this English translation and the original version prepared in Hebrew, the Hebrew version shall prevail. The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect. The Company makes no representations as to the accuracy and reliability of the financial information in this English translation.

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CHAPTER A

Description Of The Corporation's Business

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1. Activity of Matrix and description of development of its business development

1.1. General

Matrix I.T. Ltd.[1] ("**The Company**"), together with its subsidiaries, is a company operating in the fields of information technology (IT) solutions and services, consulting and management.

The Matrix Group employs approximately 11,200 software, hardware, engineering, integration and training personnel, who provide services in the fields of information technology and advanced management to hundreds of customers in the Israeli market, as well as to customers in the American market, while specializing in the areas of banking and finance, high-tech and start-ups, industry and trade, education and academia sectors, health, security, transportation, government and the public sector. The Group is also engaged in the sale and marketing of software and hardware products of a wide variety of manufacturers from Israel and around the world and in the provision of consulting services, project management and multidisciplinary engineering consulting. The solutions, services and products that the Group provides are designed to improve the competitiveness of its customers in the markets in which they operate, by providing a response to their unique needs in the field of IT, in the field of operational optimization and in the field of management and engineering.

1.2. Purchase or sale of assets on a substantial extent

1.2.1. On April 24, 2022, a transaction was completed in which the Company sold holdings representing 45.2% of the issued share capital of the subsidiary, Infinity Labs R&D. Ltd. ("Infinity"), for a total of NIS 154.5 million, such that, following the completion of the transaction, the Company was left with a holding of 4.9% of Infinity's share capital. As a result of the transaction, the Company recorded a capital gain, net of tax, amounting to NIS 121 million, and ceased to consolidate Infinity in the financial statements (included in the information technology solutions and services sector, consulting and management in Israel) commencing the second quarter of 2022.
For further details, see note 3e to the financial statements.

1.2.2. On June 20, 2022, the Company completed the purchase of RDT Equipment and Systems 1993 Ltd., which markets solutions and systems for a wide range of technologies, including control and automation systems, testing and measurement equipment (TME), advanced technological solutions for data communication testing, EMC and RF (Radio Frequency), and which acts, among other things, as a representative in Israel of dozens of international companies. RDT is consolidated in the Company's financial statements commencing the third quarter of 2022 in the Cloud and Computing Infrastructure sector. For more details, see note 3f to the financial statements.

1.2.3. On January 1, 2023, after the date of the financial statements, the Company completed the acquisition of Zebra AGR Ltd., which is engaged in the distribution of solutions in the fields of information security and data communication. Zebra will be consolidated in the company's financial statements commencing the first quarter of 2023, as part of the segment of sales, marketing and support of software products. For further details, see note 25 to the financial statements.

1.3. Structure of holdings

The diagram below shows the Company's holdings in the Matrix Group[2] as of the date of the Company's annual report for 2022 ("the Report"), classified by areas of activity:

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[1] The Company was incorporated in Israel on September 12, 1998 and is a public company whose shares were registered for trading on the Tel Aviv Stock Exchange in May 1993.

[2] The chart includes material and other companies. It is clarified that, in addition to the holdings in the companies in the chart, the Company has holdings in other companies.


MATRIX I.T. LTD.
MATRIX DEFENSE LTD.
TACT COMPUTERS & SYSTEMS LTD.
JOHN BRYCE TRAINING LTD.
MATRIX I.T. SYSTEMS LTD.
MATRIX IT INTEGRATION & INFRASTRUCTURES LTD.
TANGRAM SOFT LTD.
MATRIX TESTINGS & AUTOMATION LTD. (1)
HAMIL THE ISRAELI MANAGEMENT CENTER LTD.
MATRIX IT CLOUDZONE LTD.
MATRIX DNA LTD. (60%)
MATCHPOINT IT LTD. (90.1)
MATRIX CONSULTING LTD.
MATRIX IT ADVANCED INFORMATION SYSTEMS LTD.
MATRIX IT SOFTWARE PRODUCTS LTD.
AVIV ENGINEERING MANAGEMENT & INFORMATION SYSTEMS (2) (85%)
MATRIX IT SOLUTIONS ERP LTD.
XTIVIA TECHNOLOGIES, INC
MATRIX IT GLOBAL SERVICES LTD.
TECH TOP MARKETING LTD.
MATRIX DEVOPS LTD.
ITD GROUP LTD. (MEDIKA) (75%)
KBIS LTD. (51%)
INFINITY LABS R&D LTD. (4.9%)
NOAH TECHNOLOGIES LTD.
DANA ENGINEERING LTD.
2B SECURE LTD.
RIGHTSTAR INC.
BABCOM CENTERS LTD. (50.1%)
GESTETNERTEC LTD. (56.5%)
A-SOFT LTD.
MATRIX - IFS UK LTD.
PROGRAMA LOGISTICS SYSTEMS LTD. (73%)
STONS INC. (70%)
NETSHORE LTD
AVB TECHNOLOGY LTD.(60%)
AG 2000 HOLDINGS LLC
INTEGRITY SOFTWARE (2011) LTD.(65.25%
XTIVIA INC.
MATRIX I.T. GLOBAL SERVICES BULGARIA EAD
CAMBIUM (2014) LTD. (55%)
MATRIX US HOLDING LLC (95%)
MEDATECH - INFORMATION TECHNOLOGIES LTD.
HYDUS TECHNOLOGIES INDIA PRIVATE LIMITED
MATRIX I.T. GLOBAL SERVICES, MACEDONIA DOOEL SKOPJE
RSA INDUSTRIES TESTING SYSTEMS LTD.
EXZAC INC. (MATRIX-IFS)
RDT EQUIPMENT AND SYSTEMS LTD.
NIT-NETWORK INFRASTRUCTURE TECHNOLOGIES INC.
ALL COMPANIES ARE 100% OWNED EXCEPT FOR THOSE THAT ARE EXPLICITLY STATED OTHERWISE, WHOSE REMAINING SHARES ARE HELD BY THE FOUNDERS / UNRELATED THIRD PARTIES.
(1) 7% OF THE SHARE CAPITAL IS HELD BY MATRIX TESTING ITSELF.
(2) 6% OF THE SHARE CAPITAL IS HELD BY AVIV ITSELF.
SOLUTIONS AND INFORMATION TECHNOLOGY SERVICES, CONSULTING AND MANAGEMENT IN ISRAEL
SOLUTIONS AND INFORMATION TECHNOLOGY SERVICES IN THE US
TRAINING AND IMPLEMENTATION
CLOUD INFRASTRUCTURES AND COMPUTING
SALES, MARKETING AND SUPPORT OF SOFTWARE PRODUCTS

2. Areas of activity

The Group has five areas of activity - (1) information technology solutions and services, consulting and management in Israel; (2) information technology solutions and services in the USA; (3) sales, marketing and support of software products; (4) cloud and computing infrastructures; and (5) training and implementation - which provide solutions, services and products, mainly to the following customer sectors ("sectors"): banking and finance, high-tech and start-ups, government and the public sector, defense, transportation, health, industry, retail and trade, education and academia. Within each of the sectors there are dedicated departments that specialize in providing specific solutions to the particular customer sector in which they operate, as well as managing and executing projects for departments across the Company.

The specialization in the various sectors is reflected in the applicative, professional and marketing aspects of that sector. Accordingly, in each sector a professional and marketing infrastructure is developed, which is required for the support designated in that sector.

Below is a percentage distribution table of the Company's customers, according to sectoral affiliation, for all of the Company's activities for 2022:

Area	Percentage
Banking, finance and insurance	19.7%
High Tech	14.8%
Government	16.9%
Defense	8.1%
Insurance	5.9%
Transportation	5.7%
Health	4.9%
Communication	3.7%
Retail	2.9%
Other areas	17.4%

In addition to the five focused areas of activity, as detailed above, the Matrix Group operates centers of excellence, which provide specialized services to all areas of activity and to the various sectors:

- Centers of expertise - a group of 27 centers of excellence (CoE), in areas such as: Digital, Cloud, Experience, Mobile, Data, , Security & Cyber, Learning Technology, Open Source, DevOps, Agile & ALM, ERP, CRM Smart Campus, Low Code, etc. The centers of excellence are based on an organizational concept that aims to provide substantial professional-technological added values to both the Company's development teams and to the Company's customers, including: groups of experts specializing in the areas of content, practical experience in the specialized technologies, a comprehensive team (which includes, among other things, methodologies and best practices) which shorten the time to go live and reduce risks, technological support of the CTO team in the Company, etc.
- Comprehensive management and engineering consulting services, from the stage of formulating the strategy and management consulting to the stages of implementing and implementing the change, including the management of complex projects, including engineering projects, large-scale engineering supervision projects, in particular, in the field of transportation, and projects in the field of planning and environmental quality and in the field of transportation, as well as multidisciplinary engineering consulting services, and consulting and implementation services in the field of supply chain management and logistical-operational management.
- Matrix R&D Services and Offshore which provides software development services and software testing and quality assurance services in the Offshore and Nearshore model.

The following is a summary description of the five areas of activity:

Information technology solutions and services, consulting and management in Israel

The activity in this area is focused mainly on the development of large-scale technological systems and the provision of related services, including consulting and management, execution of computerization and software integration projects, outsourcing, software project management, software development, software testing and QA, as well as improving and upgrading existing technological systems. In addition, the activity in this area includes management consulting services and multidisciplinary engineering and operational consulting, including the supervision of complex engineering projects, in particular, infrastructure projects, all in accordance with the specific needs of the customer and in accordance with the professional specialization topics required in each case.

Information technology solutions and services in the USA

The activity in this area, which is carried out through two arms - Matrix US Holding and XTIVIA, each of which owns a number of subsidiaries in the United States. The activity includes the provision of expert solutions and services in the field of Governance, Risk and Compliance (GRC), including activity in the following areas: Financial Risk Management, Fraud Prevention Management, Anti-Money Laundering, Trade Surveillance, Payment Services and ensuring regulatory compliance in these matters, as well as specialized consulting services in the field of compliance with financial regulation and implementation of regulations and operation services, as well as Electronic Medical Records (EMR) - Clinical Support services and IT Help Desk and Desktop Support services specialized in the field of Healthcare.

This field of activity also includes the provision of specialized technological solutions and services in the fields of: portals, BI, CRM, DBA and EIM, dedicated solutions for the government contracting market in the United States, software product distribution services. In addition, the activity in this area includes professional services and offshore solutions, including through employees in the company's activity centers in India and professional services and projects through personnel from around the Matrix Group, as a gateway to a business model of exporting the Company's services and products in the United States.

Sales, marketing and support of software products

The activity in this area is focused mainly on the sale and distribution of software products (mainly from software manufacturers from abroad) in various and diverse fields and providing professional support services for these products to customers, as well as projects for implementation, training, support and maintenance of the products and the integrated systems.

Cloud infrastructure and computing

The Company's activity in this field is mainly focused on providing computing solutions for computer infrastructures, a range of solutions and services in the field of cloud computing (through the Company's business unit specializing in this field - CloudZone), communication solutions, marketing and sales of hardware, software licenses and peripheral equipment to business customers, together with the provision of related professional services, multimedia solutions and control and monitoring centers, office automation and printing solutions, a range of services in the field of Data and Big Data, through the Company's specialized business unit - DataZone, as well as representing leading manufacturers of testing and measurement equipment, communication and cyber and RF solutions, projects and integration in the field of automation, calibration services in advanced technologies and the provision of industrial video and image-processing solutions tailored to the customer's needs, through the business units that specialize in this field - RDT Equipment and Asio Vision Systems.

Training and implementation

The operation of training centers in which advanced courses are delivered to high-tech personnel, application courses and professional training and retraining courses, as well as courses in the field of soft skills and executive training, and the provision of training services and implementation of computer systems directly to organizations and outsourcing and BPO of management of training centers to customers, as well as the provision of a range of professional services by the outstanding graduates of the Company's training courses, in an outsourcing format.

3. Investments made in the capital of Matrix and transactions in its shares

In the years 2021-2022, and through the date of the Report, no investments were made in the Corporation's capital (other than as part of the exercise of options or the exercise of restricted share units (RSU) by officers); nor were any significant transactions made in the Company's shares by interested parties outside the stock exchange.

For details regarding share-based payments, see note 18 to the financial statements.

4. Dividend distribution

4.1 For details regarding the dividends distributed by the Company during 2021 and 2022 and through the date of publication of the Report, see note 17e to the financial statements.

4.2 Retained earnings

As of December 31, 2022, the balance of profits available for distribution (retained arnings) total NIS 561,777 thousand.

4.3 Dividend policy

For details regarding the dividend distribution policy, see note 17e to the financial statements

4.4 Restrictions on the Corporation's ability to distribute dividends

For details regarding the financial criteria to which the Company committed, see notes 10d and 19 to the financial statements.

5. Financial information regarding Matrix's areas of activity

For financial information regarding the Company's areas of activity, see notes 1a and 24 to the financial statements and sections 1.2.3 and 1.2.4 to the Report of the Board of Directors.

6. General environment and the influence of external factors

6.1 For details regarding the business environment and the changes therein, including the increase in the rate of inflation and interest and volatility in the exchange rate, see section 1.1.2 of the Report of the Board of Directors.

6.2 The Company operates in two main geographic markets - Israel and the USA[3].

6.2.1 **The market in Israel**

a. Global trends

The demands of the IT market in Israel are directly affected by global trends in this field. Below are detailed in this section the global trends in this field for 2022, which were also reflected in the Israeli IT market.

1) 2022 was initially expected to be weaker than 2021 (which was a year of acceleration and growth compensating for the consequences of the corona pandemic in 2020) - but still with significant growth. In fact, due to global events, including the war in Ukraine and the shock waves of the war, the closures in China and their effect on the economy, IT activity in 2022 was weaker than forecasts. The research company, Gartner[4], expected an increase of 5.1% in IT expenses for 2022 and actually, 2022 ended (at the global level, according to Gartner's estimate) with a decrease of about 0.2%[5] and after canceling the effect of exchange rate fluctuations, a slight increase of about 0.8% - and 2023 is expected to benefit from an increase of only 2.4%. According to Forrester[6], global IT expenses increased in 2022 by 0.3% (compared to a forecast of 6.7%) and are expected to increase in 2023 by 4.7%.

2) In the analysis of the market according to Gartner, a significant part of the decrease was due to a very sharp decrease in investments in end-devices (workstations, cellular devices), which reached a decrease of 10.6%, compared with 2021[7]. Canceling the effect of the decrease of the end-devices (these are relatively minor in the Company's revenue mix) results in an increase of 2.3%, i.e., less than half the forecast.

   The areas in which there was a significant decrease in 2022:

   Beyond the abovementioned devices issue, where there was an estimate of a decrease of 10.6%, Gartner also estimated in the same study a more moderate decrease of about 2.4% in the communication services market.

   The areas in which there was growth in 2022:

   According to Gartner, investments in software increased in 2022 by 7.1% and, canceling the effect of fluctuations in currency rates[8], by 12.1% compared with investments in software in 2021, including an increase in infrastructure software, application software and vertical software. Most of the growth was in software as a service (SaaS).

[3] There is also an insignificant volume in Europe

[4] https://www.gartner.com/en/newsroom/press-releases/2023-01-18-gartner-forecasts-worldwide-it-spending-to-grow-2-percent-in-2023

[5] https://www.gartner.com/en/newsroom/press-releases/2023-01-18-gartner-forecasts-worldwide-it-spending-to-grow-2-percent-in-2023

[6] https://www.forrester.com/report/european-tech-market-outlook-by-country-2021-to-2022/RES176894?ref_search=1051634_1645482187974

[7] "During the height of the pandemic, employees and consumers had technology refreshes of tablets, laptops and mobile phones due to remote work and education," said Lovelock. "Without a compelling reason for an upgrade, device assets are being used longer and the market is suffering.

[8] Forecast Analysis: IT Spending, Worldwide, Gartner, ID G00778744

3) According to Forrester[9], the particularly prominent areas in the field of applied software are: CRM (an increase of 11.9%), vertical software (an increase of 13.3%), ERP (an increase of 10.5%), content management and collaboration (an increase of 11.9% (and engineering software (an increase of 9.9%).
According to the same Forrester report, particularly prominent in the field of infrastructure software were cyber and information security software (an increase of 15.4%), technology management programs (an increase of 13.1%) and data software (increase of about 12.8%).

4) According to Gartner[10], investments in IT services, after canceling the effect of fluctuations in currency rates, including consulting, application development and implementation, managed services and BPO, increased by 9.6% compared with 2021.
In terms of verticals, according to the same report, the verticals in which there was the most significant increase in 2022 were: banking, infrastructure, investments, government and health (all above 6%, health almost 12%, and all after canceling the effect of currency rate fluctuations).

5) The increase in the field of cyber was very significant, and not only in the area of software. According to Gartner[11], the increase in 2022 in the cyber area was 7.2%, with applied information security and information security in the cloud area increasing by more than 20%.

6) In the area of cloud computing - according to Forrester[12], total investments in the cloud area are expected to increase by 23% compared with 2021, and according to Gartner[13], the expected increase is 20.7%. The infrastructure cloud sector (IaaS) is expected to increase in 2022 by almost 30%.

7) Another significant increase is in the field of data and AI. According to IDC[14], investments in this area will increase by about 19% in 2022.
The introduction of generative models of AI, such as ChatGPT, Dall-e, Midjourney and others, has ignited the imagination of businesses and organizations and established the understanding that significant changes are expected in the way in which organizations operate, in the roles and skills required and in the contribution of AI to the bottom line of organizations.
Accordingly, investments in AI are increasing significantly. According to McKinsey[15], from 2017, the scope of AI use has increased two-and-a-half times and according to IDC[16] there is expected to be an increase of about 26% from year to year in the coming years, a growth rate that is 4 times higher than the average growth expected for all IT budgets.

8) The field of smart spaces, which combines IOT, AI, data and more, is also enjoying significant growth. According to Business Insiders[17], the field grew in 2022 by about 19% at the global level.

What is stated above regarding the IT market is forward-looking information, as defined in the Securities Law, and is based on analyses, public information and analysts' estimates, as of the date of the report. The information may not materialize, in whole or in part, or may materialize differently, including materially differently than expected, among other things, as a result of competition in the market, the economic situation in the economy and/or as a result of the materialization of all or some of the risk factors appearing in section 19 of the report.

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[9] Global Software Industry Forecast, 2022, Forrester
[10] Forecast Analysis: IT Spending, Worldwide, Gartner, ID G00778744
[11] https://www.gartner.com/en/newsroom/press-releases/2022-10-13-gartner-identifies-three-factors-influencing-growth-i
[12] The Public Cloud Market Outlook, 2022 To 2026, Forrester
[13] https://www.gartner.com/en/newsroom/press-releases/2022-10-31-gartner-forecasts-worldwide-public-cloud-end-user-spending-to-reach-nearly-600-billion-in-2023
[14] https://www.idc.com/getdoc.jsp?containerId=prEUR250058223
[15] https://www.mckinsey.com/capabilities/quantumblack/our-insights/the-state-of-ai-in-2022-and-a-half-decade-in-review
[16] https://www.idc.com/getdoc.jsp?containerId=prUS49670322
[17] https://www.fortunebusinessinsights.com/industry-reports/smart-building-market-101198

b. General environment in Israel

The Israeli government is currently promoting changes in the legal system. The proposed changes have aroused controversy, and, according to publications in the media and the opinions of various experts, their effects, the controversy surrounding them and the conduct of the parties in connection with them may have a negative impact on Israel's economy. Since the main activity of the company is in Israel, a deterioration in the state of the Israeli economy, insofar that it occurs, could have a negative impact on the Company's results.

As of the date of the Report, the Company is unable to assess the future effects of all of the aforementioned factors, insofar as they may be, on the Israeli economy, on the IT industry in Israel, in general, and on the Company's activity.

The above regarding future development in the general environment in Israel in which the Company operates and external factors affecting its activities, is forward-looking information, as defined in the Securities Law, and is based on public information and estimates, as of the date of the report, which are uncertain and outside the Company's control. The information may not materialize, in whole or in part, or materialize differently, including materially than expected.

c. 2021 was characterized by records in all areas related to a shortage of technological human capital and related professions, fierce competition for every candidate and employee, and many difficulties both in locating and recruiting suitable candidates, and in retaining quality professional personnel[18]. Although in 2022, there was a significant slowdown in the high-tech sector in Israel and around the world, reflected, inter alia, in reductions and layoffs of workers in the high-tech sector, a large part of those who were laid off were taken back to work in the field, which still suffers from a shortage of technological personnel. The Company's estimates that the trend of manpower reduction in some high-tech companies may make it easier for the Company to recruit and retain employees, and moderate the compensation level, as it has experienced in recent years.

The shortage and competition in technological personnel and related professions in Israel may have contrasting effects on the Company's business. On the one hand, it is an inhibiting factor in the development of the Company's business and its ability to satisfy the demand for its services in the technological fields (compensated to some extent by the further increase in the Company's activity in fields other than the technological fields), leads to salary increases for the Company's personnel (and consequently, to a reduction of its profitability margins) and to the increasing costs of recruitment and retention of manpower. On the other hand, it increases the demand for the Company's services - both for the projects and for the services of its professional experts, both for the Nearshore and Offshore services offered by the Company, as well as for the training and professional training services of the Company such as those provided by John Bryce (for further details, see section 7.1.1.[b] to the report), as well as the services offered by the Company for training professional personnel for the world of high-tech.

What is stated in this section regarding the human resource challenges, and their implications for the Company's activities, is forward-looking information, as defined in the Securities Law, and is based on management's estimates as of the date of this report and its business experience. The information may not materialize, in whole or in part, or materialize differently, including materially differently than expected, among other things, as a result of competition in the market, the economic and general situation in the market and/or as a result of the materialization of all or some of the risk factors appearing in section 19 of the report.

d. In recent years, there has been a growing trend of customers replacing professional

[18] According to the publication of the Central Bureau of Statistics "The number of vacancies in November 2022-January 2023", which was published on February 15, 2023, the Israeli economy lacks about 11,000 engineers, of which about 7 thousand are software developers (a decrease of 35% compared with 2021). - https://www.cbs.gov.il/he/mediarelease/DocLib/2023/048/20_23_048b.pdf

services (PS) in the IT field, based on time and materials (T&M) pricing, for contracts on the basis of managed services, which are based on a defined product (SOW Statement of Work) specifications and areas, including outsourcing to specialist suppliers. The severe lack of technological manpower (as detailed in the previous section) reinforces this trend. The economic situation which is in slowdown and a tendency to cut costs in companies is causing increased demand for this solution.

The advantage of suppliers who are prepared to provide these solutions derives from a combination of four factors: existing infrastructures, expertise in the required field, a wide portfolio of customers in the field and organizational "elasticity", which allows them to increase and decrease the resources invested according to changing needs. These capabilities allow suppliers who are prepared for this to give attractive value propositions to customers, alongside preserving and leveraging knowledge and quality services. These services can be provided On Site, NearShore or OffShore. (For more details about the services provided by the Company in these models see section 7.1.1 of the Report.)

The aforementioned trend has contrasting effects on the Company's business - on the one hand, it reduces the demand for the Company's T&M-based professional services, and on the other hand, it creates demand for alternative managed services provided by the Company.

What is stated in this section regarding the trend of contracts for the services of professional software workers and its implications for the Company's activities is forward-looking information, as defined in the Securities Law, and is based on management's assessments and business experience. The information may not materialize, in whole or in part, or materialize in a different way, including materially differently than expected, among other things, as a result of competition in the market and/or as a result of the materialization of all or some of the risk factors appearing in section 19 of the report.

e. Additional general trends, accompanying the Israeli IT market over time (and in some cases, even accelerating as a result of the trends detailed in the previous sections), open opportunities for expanding the Company's business and its market share, including among others:

- Focusing on large and financially stable suppliers.
- Mergers and acquisitions - some of the trends detailed above lead to a proliferation of mergers and acquisitions of medium and small IT companies by large companies with financial means. The Company's leading position, its financial strength and financial balances, as well as the reputation and the rich experience that the Company has in the field of mergers and acquisitions of IT companies, may create opportunities for the Company to acquire companies operating in complementary fields, tangential to the Company's fields of activity, at economic prices, relative to the potential inherent in them, thus expanding the the range of services offered by the company and its customer base.
- Offshore and Nearshore activity - the constant need for continued efficiency and operational savings in large organizations on the one hand, and the lack of technological personnel on the other, create an incentive for discounted and economical solutions. This trend may lead to the expansion of the Company's business in these areas as part of the "Matrix Offshore and R&D Services" activity and in Babcom. [For more details, see section 7.1.1(b) of the report].
- An ongoing and significant trend of movement towards Cloud services, which require both professional expertise in this field and close business relationships with the leading providers in this field.

  What is stated above regarding the trends accompanying the IT market is forward-looking information, as defined in the Securities Law, and is based on management's assessments and business experience. The information may not materialize, in whole or in part, or materialize in a different way, including materially differently than expected, among other things, as a result of competition in the market and/or as a result of the materialization of all or some of the risk factors appearing in section 19 of the Report.

6.2.2 **The US market**

The same global technological trends detailed in section 6.2.1a above are, of course, also relevant, particularly to the American market and were reflected in 2022, and they are expected to continue in the coming years.

Furthermore, the IT market in the US is directly affected by the economic developments in the US economy, and indeed, the US market in 2022, experienced very moderate growth. According to the BEA[19] (the United States. Bureau of Economic Analysis), US GDP increased by 2.1% annually in 2022, compared with 2021 (after canceling the effect of currency rates fluctuations). This compared to an increase of 5.9% annually in 2021 compared with 2020.

According to a Bloomberg[20] review, if until a few months ago, there was a consensus that the American economy was on the way to a recession, recently, the 'soft landing' scenario has returned to the discussion table as a likely scenario. Also, in the forecast by Deloitte's[21] regarding the American economy, the scenario of curbing inflation alongside low economic growth is the most likely scenario (55%).

Against the background of economic uncertainty, inflation and interest rate increases, it is interesting to see that the increase in IT investments in the US in 2022 was significantly greater than the increase at the global level.

Gartner[22], for example, estimates that in 2022, in the USA, the expected increase in IT expenses (compared with 2021), after canceling the effect of currency rate fluctuations, was 6.8%, and the expected increase in 2023 is 6.6%. (This compared to a global increase of 5.5% in 2022 and an expected increase of 5.4% in 2023.)

Forrester[23], too, expects a 7.4% increase in the American market in 2022 (compared to 0.3% at the global level) and a further 5.4% increase in 2023 (compared with 4.7% on the global level). Their report predicts a 10.1% increase in software spending in the US market in 2022 and 7% in 2023, and a 7% increase in spending on IT services in 2022 and 5% in 2023. The same report also predicts that the expected increase in IT spending in the financial sector is more significant than all the other sectors - an expected 12% increase in IT expenses for 2022 and 8.9% for 2023.

The demand for the Company's services in the field of GRC is affected by the regulatory requirements and operating and reporting guidelines in the US financial market from a number of entities, including the SEC (Securities & Exchange Commission), FINRA (Financial Industry Regulation Authority), CFTC (Commodity Futures Trading Commission), NFA (National Futures Association) and FERC (Federal Energy Regulatory Commission). These entities have stipulated a long list of control and reporting requirements on issues such as: Know Your Customer (KYC), Customer Identification Programs (CIP), Anti Money Laundering, Fraud Prevention, regulatory requirements in the field of trade control (Trade Surveillance), including compliance with the Dodd-Frank rules etc.

Following the tension in connection with the Russia-Ukraine war and the Chinese threat, in addition to the volatility of the stock market, the US Administration is leaning towards more regulation in the financial sector, creating new requirements in the GRC sector, which was reflected in 2022 in the continued investment of resources by the financial entities in projects and systems to prevent money laundering and fraud.

In addition, the increase in Digital, including the massive increase in transactions and digital payments, the strengthening of Fintech and broader cyber effects on organizations create an ever-growing need for fraud prevention regulation that requires the implementation of appropriate systems. The growth in crypto currency also reinforces the need for regulation and control in the world of money laundering prevention.

The abovementioned regulations and reporting requirements usually have a positive effect on the demand for the Company's services, because they create a need to change processes and structures that require adjustments in systems and/or specific IT solutions, usually,

[19] https://www.bea.gov/news/2023/gross-domestic-product-fourth-quarter-and-year-2022-second-estimate

[20] https://www.bloomberg.com/news/articles/2023-01-26/us-economy-expands-at-a-faster-than-expected-2-9-pace

[21] https://www2.deloitte.com/us/en/insights/economy/us-economic-forecast/united-states-outlook-analysis.html

[22] IT Spending Forecast, 4Q22 Update: 2023 Predicted Winners and Losers

[23] https://www.forrester.com/report/us-tech-market-forecast-2022-to-2027/RES178714?ref_search=1051634_1677534310228

within a limited and short period of time.
Competition in the field of professional services in the field of GRC is intensifying, both with large consulting bodies, such as the Big-4 and with the professional services departments of software product suppliers in this field, and it may lead to a negative trend on the demand for the Company's services in this field.

The healthcare market is recovering from the crisis of the corona pandemic, but a negative effect on hospital budgets is evident due to the increase in interest rates in the economy. This trend has a mixed effect on the Company's business, on the one hand, it is an inhibiting factor in the development of the Company's business, and on the other hand, it is because the hospital systems are looking for ways to reduce their workforce and become more efficient, partly through the outsourcing of projects and services, in a way that increases the demand for the services of the subsidiary, NIT.

Similar to that which was set out regarding the software market in Israel (see section 6.2.1c above), there was a shortage of technology personnel in the US as well, where the slowdown in the high-tech sector has less of an effect on the Company's employees in the technological-financial sector, but some relief is expected for the Company in recruiting and retaining employees. A shortage and competition in technological manpower and related professions in the US may have opposite effects on the Company's business. On the one hand, the lack of manpower makes it difficult for the Company to meet the demand for its services in technological fields and obliges the Company to raise wages in its operations in the US as well, in order to preserve the existing personnel in the Company and to recruit new employees. The continued lack of manpower in the US may have a negative impact on the Company's operating results in the US. On the other hand, the possibility of working fully from home as well as from anywhere with each client, allowed the company to reduce its office space, as well as to increase the Company's ability to employ workers from Israel and Eastern Europe in the provision of services vis-a-vis the United States, where, although this does not necessarily result in significant savings in employee costs (certainly not when it comes to personnel from Israel), and there is a need to bridge the time-zone differences, at least there is another channel that can fulfill the many requirements for quality personnel in the US and also increase the demand for the Company's services for both the projects and the services provided by the Company.

The increase in the exchange rate of the dollar in relation to the shekel in 2022 had a positive impact on the results of the Company's activity in the field of information technology solutions and services in the United States, since the transactions in this sector, by their very nature, are in dollars, while the results of the Company's activity are presented in new Israeli shekels.

The above regarding trends, consequences and effects is forward-looking information, as defined in the Securities Law, based on management's assessments and business experience and public information as of the date of the report, and on assumptions, analyzes and public information as well as on analysts' assessments as of the date of the report. The information may not materialize, in whole or in part, or materialize differently, including materially differently than expected, among other things, as a result of the economic slowdown, as a result of the competition due to this and/or as a result of the realization of all or some of the risk factors appearing in section 19 of the Report.

7. Description of Matrix's activity by area of activity

7.1. Information technology solutions and services, consulting and management in Israel

For the rates of contribution (in percentages) of this area of activity to the Company's revenues and profit from ordinary operations for the years 2021 and 2022 in Israel, see section 1.2.3 of the Report of the Board of Directors.

7.1.1 General; Types of services in the area of activity:

Set forth below are the services that the Company provides to its customers in the field of information technology solutions and services, consulting and management in Israel and the developments in the field which impacted the Company's operating results in this area of activity in 2022, as well as details of expected developments in this area of activity that may significantly impact these results in the short and medium term:

a. **Integration projects**

In this framework, the Company provides its customers with comprehensive solutions for systems in a required field, which combine services from several areas of activity detailed further in this section 7.1.1, as well as solutions from other areas of the Company activity (Marketing of software products, Training and implementation and Cloud and computing infrastructures). The integration of all the aforementioned components is intended to provide a full response to the customer's needs in a required area. These projects are usually of significant financial scope and require a rich variety of specializations.

As an example of this: the establishment of a comprehensive system for the Central Bureau of Statistics for the supply and operation of a central storage system, accessibility of information and management of work processes; a project for the merger of Psagot Investment House with Altshuler Shoham (migration); the "Smart Campus" project for the Discount Group, as part of the project, Matrix established the computer systems for the management and integration of the smart systems in the new campus of the Discount Group, including the catering systems, parking management, etc.; security projects, which the company carries out for the Ministry of Defense and for security agencies abroad, etc. Also, following the project of establishing a database of credit data for the Bank of Israel that the company carried out, a three-year extension was granted for the maintenance of credit database systems, including the operation of the database.

As another example: as part of the Open Banking reform - the banks and credit companies are required to allow the transfer of customer information to other entities, given the customer's express consent. In order to enable the information disclosure capabilities and comply with the regulations, which continue to be updated and structured, the financial entities are required to create a smart and adapted layer of APIs. The Company is a leader in this field and specializes in both the regulations of the standard and the implementation of advanced solutions of Open APIs, which enable this customized disclosure. The Company supports its customers in the financial sector with advice on adapting the business processes and implementing advanced solutions for the issue of the major product companies, including solutions in cloud environments.

b. **Offshore/Nearshore**

The severe shortage of technological manpower in Israel, as well as the significant increase in the costs of employing technology staff, reinforce a trend among companies and organizations to seek economic alternatives for their software development and QA activities, through the use of Nearshore and Offshore services, i.e. the provision of software development services and software testing services by local workers or abroad, at rates lower than is customary in Israel. The Company sees in this business potential and is working to promote its business in the field of Offshore and Nearshore under a unified brand called Matrix R&D and Offshore Services ("**Matrix R&D and Offshore Services**") abroad and under the brand "**Talpiot**" in Israel.

The activities of Matrix R&D and Offshore services include:

- The Talpiot project - a training and placement track for women in the ultra-orthodox sector, within which the Company establishes software development and testing centers, which employ female workers who have been trained by the Company as stated. The centers are adapted to the needs of the target population of that center (hours of operation, work environment, supportive environment, etc.), and therefore, the demand to work within them among the target population is high. From the beginning of its activity in this field through the date of the report, the Company, which was the pioneer of activity in this field in Israel, has trained thousands of female workers for the fields of programming and software testing.
  The added value of the Talpiot project (in addition to being, in the Company's view, a national-Zionist project of the first order) is based on the availability of talents with knowledge and experience, such as graduates of a training course for academics and engineers, in the pool of candidates to join this project, which enables the rapid establishment of software development, automation and QA teams, while building a long-term relationship with the customers, based on the loyalty and quality capabilities of the employees in the project.
  The cost of operating the aforementioned development center is lower than the cost of operating similar units in the Company's existing centers, and accordingly, the billing rates to customers are also lower than what is generally accepted in the market for similar services. The Company operates within the framework of large software projects, which the Company won, women who were trained in the Talpiot project, as part of the development and testing teams, while reducing costs. The target population of the Talpiot project is customers in Israel and abroad.
  The corona virus, which forced the economy to switch to remote labor, led to the development of remote work methods, in a way that increased the Company's potential and ability to offer services to companies in the Israeli market and abroad based on the remote work method. This work approach, based on working from home, continued to be applied partially with the arrival of the corona waves in 2022, and it continues even today.
  The acute shortage of technological manpower in the central areas and the possibility of remote work have resulted in an increase in demand for the Company's Offshore and Nearshore solutions, which are based on the ability to recruit and retain employees in different areas in Israel and abroad.
- In addition, the Company operates, under the Matrix R&D and Offshore services brand, in the provision of offshore services through the Company's subsidiaries in Eastern Europe (mainly in Bulgaria and Macedonia), intended for a target population of customers in Israel (mainly in the high-tech sector and start-ups) and potentially also to customers abroad.
- In addition, the Company offers a full end-to-end outsourcing service of the

product development centers or at the level of the entire product development activity. The service is provided to high-tech and start-up companies that prefer to continue developing and maintaining their obsolete products or to companies that prefer to transfer the development center to the responsibility to a body specializing in technology and software development.

c. **Cloud computing solutions**

During 2022, the field of cloud services (Cloud Computing) continued to gain momentum around the world, including Israel, among other things (but not only) due to the corona crisis. These are technological and business models for the provision of computing infrastructure such as computing power, memory, storage space, applications, platforms for developing and running applications, etc., as well as the business applications themselves, which are offered as a service and charged according to actual use. The resources provided increase/decrease according to need (On-Demand) in an elastic manner and are usually managed through a web-user interface by the service customer (as opposed to the traditional hosting methods - Hosting). The Company has expanded its activities in this field significantly, not only to global companies and hi-tech companies, but also to "enterprise" organizations, academia, telecom, finance, health, industry and more.

According to Forrester[24], investments in IaaS (Infrastructure as a Service) around the world increased by about 30% in 2022, and according to Gartner[25], a similar growth rate is expected to continue until 2025. In Israel, greater growth is expected following the high-tech tide on the one hand (the high-tech market is the largest consumer of services Cloud), and following the government's "Nimbus" project, which aims, among other things, to redirect more and more government activity to cloud environments, through the use of the services of international cloud providers in Israel. This project generates great momentum for entering the cloud in the governmental, public and security sectors. The business sector is also directing more and more activity to the cloud, and it is likely that this trend will even increase once the presence of the international cloud providers in Israel is actually realized.

Most of the Company's cloud computing solutions are concentrated in the CloudZone unit. For more details regarding the CloudZone see section 7.4.2 below.

d. **Solutions in the field of BI and Big Data**

The field is focused on the application of systems, which help the organization to investigate and analyze the business activities of the organization in its fields of activity and its work patterns in those fields, as well as of the entire market outside the organization, through intelligent information analysis, in large volumes of information, with innovative technologies. "MatrixDnA" is the data arm of the Group. MatrixDnA specializes in the development and implementation of complex data projects customized to the needs of customers, based on the most advanced technologies in the world.

The Company employs hundreds of leading experts and provides a wide range of solutions, services and specializations in diverse BI fields and in the fields of Big Data, AI and Machine Learning (for further expansion on AI Machine Learning topics, see subsection r. below).

In addition, the Company specializes in providing consulting services for strategic data labeling and data architecture for organizations and their transformation into a Data Driven Organization. The Company's focus in the field of data helps bring value and proven results to its customers in hundreds of successful projects in diverse market sectors. During 2022, it was possible

[24] The Public Cloud Market Outlook, 2022 To 2026, Forrester

[25] https://www.gartner.com/en/webinars/4008304/it-spend-forecast-4q21-update-where-next

to identify the continuation of the demand trend in the health sector, in the public, government sector, in the security sector, in the retail sector and in the financial sector, in which MatrixDnA is a leader. During the year, activity expanded around large-scale national projects and a project was added for the establishment and operation of the National Information Avenue at the Central Bureau of Statistics (see also section 7.1.1a above), which led to continued growth in the scope of MatrixDnA's activity in 2022.

e. **Software testing**

The Company operates, through "Matrix Testing and Automation", in the field of software testing, QA and automation of software testing, while specializing in providing manual and automatic testing services in a variety of technologies and sectors and in developing unique testing methods, using a variety of solutions and tools suitable for different environments. The Company provides services to diverse customer sectors, including high-tech and start-ups, financial, communications, public and government, medical, military and security, and more. The testing services provided by the Company respond to the needs of its customers in a variety of business models adapted to the needs of the customers, including by consultants at the customer's site, through full responsibility for a managed service project, in the performance of the activity from a remote site in a Nearshore or Offshore model or in an combined model, as well as in the provision of services based on automation environments for testing, including the representation of several leading software products in the field.

f. **Solutions in the field of cyber and information security**

Dealing with cyber security risks has for some time occupied a central place both in the security world (cyber war) and in the economic/business world (cyber crime).

The percentage of companies that allow their employees to work remotely has increased significantly since corona. Attackers found that the time in which employees connect to corporate networks remotely (a trend that intensified following the corona period and remains applicable even after it), opens up attack possibilities that did not previously exist. According to TrendMicro's mid-year report[26], ransomware attacks are constantly evolving. The reasons for this are varied, but beyond the obvious explanation that these attacks are very profitable (and the publications about the success of attackers only add to this trend), in the last year, ransom infrastructures as a service (RAAS, such as Blackcat, Conti, Lockbit) have developed greatly. This way, you can enter this field without the need for knowledge or complex abilities.

At the beginning of the forecast report published by Checkpoint for trends for 2023[27], a number of prominent statistics that characterized the past year appear, among them, that cyber attacks around the world (between the third quarter of 2022 and the corresponding quarter in 2021) increased by 28%. The report also points to a severe shortage of manpower in the field (3.4 million jobs worldwide).

According to a report published by the company, Checkpoint, on cyber trends for 2023 - during the coming year, activism attacks (ideologically motivated attacks, in which the attacker's goal is to cause damage in order to embarrass, humiliate, convey a message, destabilize and not to make money) will increase - the attack on the Technion[28] that was published at the beginning of 2023 is the best example of overcoming this trend. The attack was carried out,

[26] https://www.trendmicro.com/vinfo/us/security/research-and-analysis/threat-reports/roundup/defending-the-expanding-attack-surface-trend-micro-2022-midyear-cybersecurity-report/

[27] https://www.checkpoint.com/press-releases/check-point-softwares-cybersecurity-predictions-for-2023-expect-more-global-attacks-government-regulation-and-consolidation/

[28] https://www.calcalist.co.il/calcalistech/article/bkb9d78pj

according to all estimates, by Iranian activists.

Also, it appears from the forecast that Deepfake-based attacks will increase due to the advancement of technology and capabilities in these areas. According to the forecast, governments around the world will invest efforts and resources to protect citizens from cyber attacks, in part by increasing regulation and requirements from companies that hold databases.

Matrix operates in this area mainly through its subsidiaries 2B Secure Ltd. ("2B Secure"), Integrity Software Ltd., Matrix Defense Ltd. and Tangram Soft Ltd.

2B Secure provides a variety of information security services to many organizations in Israel and around the world, and provides its clients with a wide variety of solutions in the field of information and cyber security, risk management and accompanying organizations to comply with information security and privacy regulations such as ISOX, HIPAA ISO 27001, GDPR and more. 2BSecure also carries out information security projects, including the sale of information and cyber security products of the world's leading manufacturers in these fields.

In addition, the Company has a SOC (Security operation system) which monitors dozens of customers both in Israel and internationally, including providing Immediate Response services to a wide variety of areas.

The Company's activity in this field was further expanded at the beginning of 2023, with the acquisition of the company Zebra AGR Technologies Ltd. - which specializes in the distribution of software solutions in the fields of information security and data communication. The Company intends to combine its expertise in the fields of consulting and implementing information security solutions with the range of solutions offered by Zebra.

g. **DevOps and ALM**

The Company operates in the field of DevOps services, for the automation of software transfer processes from the development stage to production, and in the field of ALM, for managing the life cycle of the software from the administrative, development and operational aspects. The Company operates in this field mainly through the subsidiary, Matrix DevOps Ltd. and through the Company's cloud unit - CloudZone. These services include technological architecture consulting, services and consultants in the fields of DevOps, ALM, Containers and PaaS (Platform as a Service) and providing solutions to computerize the entire cycle of the customers' software development processes, based on off-the-shelf products and open source products. The Company's services in this area cover the needs of its customers from the phase of defining the requirements to the production phase, including automating the transfer of the developed code using fast and reliable methods to work in the production environment and monitoring the performance and way in which the code works in the production phase. The Company's activity in this area includes, inter alia, projects for the establishment and operation of ALM and DevOps infrastructures, as well as the representation and sale of software products of several companies, among them: Atlassian, Cisco, Micro Focus, Monday.com, Scenic, Harness, DBMaestro, Quali and more.

h. **Digital strategy and customer experience**

In a process that received significant momentum during the corona period, many organizations in Israel significantly accelerated their digital transformation processes. A significant channel in the transformation, leading to a better customer experience, is the cloud. Since the outbreak of the corona pandemic, many organizations are rapidly releasing digital products in order to quickly respond to the frequently changing needs of customers. In this respect, the cloud has a great advantage thanks to the flexibility that characterizes it. In addition, the cloud offers an ecosystem with a variety of solutions such as Data & Analytics, information security, cyber and accelerated connectivity, and is a channel for business growth and innovation.

The Company's specialization center in the field of customer experience (CX - Customer Experience) provides organizations with advanced technological solutions as part of a customer-driven digital strategy and an actual work plan for the purpose of carrying out the digital transformation. Digital transformation processes among the organizations yield channel/multi-channel development projects such as CRM, digital, mobile, customer analytics and IoT (see details in the appropriate sections below).

In addition, the Company provides advanced solutions in digital issues, hyper-automation and modernization of systems, including automation of RPA-based processes, modernization of core systems, development of systems and digital solutions based on Lowcode tools. (In 2022, the Company won a consumer credit project of Isracard based on LowCode software, Mendix, a product that Matrix represents.), development of portals, websites, e-commerce websites and business activity and internet services for organizations in the banking and finance sectors, health, government, security, trade and retail, media and more.

The Company has extensive expertise and knowledge in the application and implementation of digital solutions for the worlds of finance, which include a combination of expertise in the implementation of digital projects in combination with the representation of diverse financial solutions.

i. **Solutions in the Mobile field**

The Company is taking steps to develop and implement advanced mobile systems, through a center of excellence for the mobile field and a large development and implementation group, which develops mobile applications and solutions. These activities are carried out in a close interface with the center of specialization in the field of user experience (CX), as detailed above. Matrix's dedicated Mobile entity addresses both large organizations and the wider world of mobile applications for medium-sized companies and start-ups. In this framework, the Company has developed a wide variety of applications in business, commercial fields and various applications, with an emphasis on corporate applications, based on all the platforms used in the Mobile world and using the most advanced technologies in the field. The connection between the Mobile unit and other development units in the company (such as BI/DnA, Cloud, etc.) enables the provision of a broader development and solution umbrella, while developing mobile applications based on an optimal customer experience in combination with the use of cloud and analysis services. In 2022, the Company developed for a large hospital a dedicated system for patients based on tablets in order to present medical information to the patient.

j. **Modernization of core systems**

As part of dealing with the increased demand for digital transformation, while responding quickly to this need, which gained momentum during corona and continues even today, some organizations have released products to the market, which appear digital but, behind the scenes, are based on outdated, cumbersome and slow core systems. This has often led to partial outputs adversely affecting the customer experience.

This leads many organizations to the insight that a complete digital transformation requires the modernization of all the links in the chain. The core systems are often based on outdated technologies, and are not prepared to respond to the processes required when working with digital channels.

The tendency, which was acceptable in the past, to develop new systems based on new products and/or technologies, and completely replace the old systems, a process that takes many years and carries significant risks, has been replaced by a tendency for projects based on the existing core systems, which, in many cases, embody proven and tested business insights, but using outdated technological infrastructures, and modernizing those business insights and logics into modern, friendly and efficient technological environments. The trend of modernization of the core systems makes it possible to get the most out of all the new technological options available on the market, while maintaining what is still relevant and useful from the old systems. The Company carries out a number of significant modernization projects, including one of the largest banks in Israel.

k. **ERP**

The Company's activity in the field of ERP is based on solutions of the company, Priority, through its subsidiary Medatech, and on the "Tafnit" system, an ERP system developed by the Company and an intellectual property asset of the Company.

The Company is Israel's leading implementer of "Priority" solutions in Israel, where all activity is carried out through the subsidiary, Medatech, which provides service to over 1,000 customers in a wide variety of activity and expertise sectors. In order to meet the unique requirements of businesses in various activity sectors, Medatech has developed unique modules that expand the functionality built into "Priority" solutions. The effective support of Medatech in the various sectors and applications relies on dedicated vertical solutions, the result of Medatech's implementation (on the "Priority" software infrastructure) such as: the real estate market, the industrial sector (plastics, chemistry, hard metals, pharmaceuticals, medical devices, etc.), high-tech, distribution, customer service, project management, etc. Medatech provides an end-to-end solution for all the activities of managing the information systems at the customer sites that work with "Priority" solutions. The Company provides and supports various types of Expert Systems (MES, BI, WEB applications, etc.) and provides, through the Company Medatech's subsidiary, Medatech Systems, technical support services for the existing infrastructure at customer sites (databases, operating systems, networks, cloud services, etc.).

In the activity based on "Tafnit", the Company operates mainly in the financial sector in non-bank credit management systems, which are installed in many of the leading non-bank credit companies in Israel, in the health sectors (hospitals), in the education sector (academic institutions), in the retail sector, in the automotive sector, in the consumer goods sector (mainly, electrical products) and more.

The Company also operates in the field of logistics, inter alia, implementing WMS solutions (Warehouse Management System), which are advanced systems for managing logistics centers and distribution centers, installed in logistics centers and large warehouses in Israel.

l. **CRM**

The Company specializes in CRM applications, mainly those based on Dynamics CRM solutions from Microsoft and the Salesforce platform. The CRM specialization center in the Company specializes in business and process and technological aspects as one, which involve the implementation of CRM systems. The Company's Dynamics CRM applications are implemented in various versions and in various work environments (public cloud, local cloud, hybrid solution and on-prem solutions). The Company's Salesforce applications are performed in the cloud, using vertical solutions adapted to the customer's requirements (either built-in solutions that exist in the Salesforce platform or based on the representation of third-party products). The Company also specializes in implementing migration projects around older CRM solutions and systems to new platforms, as well as migration projects to cloud environments. In 2022, the Company won the implementation of a CRM system to manage the processes of the mortgage system of Bank Hapoalim based on Salesforce software (in parallel with the maintenance of the CRM systems of their Corporate Division).

m. **IoT and Extended Reality**

In the field of IoT, the Company provides comprehensive and broad solutions, which include cloud-based platforms or physical servers for managing an IoT array, while collecting and analyzing large amounts of data, analytics, control and forecasting based on real-time information, coming from an IoT array - machines, controllers, sensors, in combination with digital interfaces, and in particular, mobile, which enable communication capabilities with various accessories, while presenting the data in a variety of channels. These capabilities allow the Company to assist organizations in turning physical products into Connected Products or Managed Services (as a Service), to optimize production processes in Industry 4.0 and Industry 5.0, to connect to wearable devices (in the health sector for example), to develop Augmented Reality models (AR) and more.

In 2020-2021, following the corona crisis, the use of Extended Reality increased, mainly in the field of Remote Technical Support, for organizations that had to reduce flights and visits to client sites, support for isolated employees, closures, etc. 2021 was characterized by the increased efforts of the technology giants (Facebook, Microsoft, Amazon, Google) to lead the field, and because of Facebook (META), the term "Metaverse,29"was adopted and became the center of the discourse. As a result, the activity in this area continues, although on a smaller scale than before. 2022 was characterized by a transition from talk to action and projects that practically implement the use of this technology for the benefit of a smarter and more effective industry.

The Company is a leader in the field in Israel, both in terms of design and technological solutions - an example of this is in Intel's Predictive Maintenance system.

[29] It was coined by Neil Stephenson in his book Snow Crash back in 1992..

n. **Smart spaces**

Another use of IOT technologies in combination with data, AI and digital applications is the world of Smart Spaces. A smart space is a combination of technology in the physical environment physical technologies (physical and digital) such as IoT, Mixed Reality, Robotics, Data, AI and Digital. The Smart Space makes the environment in which we operate more environmental, more efficient and, above all, an environment focused on people and customer/employee experience.

The connection between the physical world and the digital world in Smart Spaces creates new opportunities in industry, health, education, commerce, transportation and more. Matrix is a leader in the field of establishing smart spaces, in projects such as Discount's **Smart Campus.**

o. **Solutions in the field of process robotics (RPA)**

The Company specializes in robotics solutions, including RPA solutions, which include Bots which independent or integrated with a human factor, and automation and digitization capabilities of document reading. The solutions enable the computerization and automation of repetitive processes, which are performed manually and routinely, thus significantly optimizing the processes both in terms of quality, reliability and capacity and in terms of moving human resources to other processes. The AI capabilities are integrated into the automation solutions and provide dedicated solutions for reading and computing documents that include Hebrew handwriting. An example project that Matrix carries out: mechanizing Customer Service Processes with the agencies in different geographic agencies of Zim.

p. **Matrix Defense - consulting, research, development and systems engineering in the defense field**

Matrix Defense is a leading body in the security-technology field, with decades of experience and hundreds of successful and complex projects for critical defense systems.

Since 2021, Matrix Defense has been designated as a "Defense Industry" by the Ministry of Defense, following the identification of the Company by the defense system as having a significant volume of activity in the defense field and its involvement in important projects for the defense system.

The division employs hundreds of experts, rich in operational and technological experience in providing services for the IDF, the Ministry of Defense and the leading defense industries, as well as in projects for security organizations abroad.

Matrix Defense has expertise in the worlds of engineering, technology, cyber and deep learning, and it combines advanced technologies in the complex operational worlds, planning and execution of technological projects in the worlds of geographic information systems (GIS), NLP, video and image processing, deep specialization in cyber defense and intelligence including in Devices, Computer-embedded systems, National defense systems (national CERT), Development of Command and Control Systems, Intelligence and simulation, etc.

The division has one of the largest and most diverse security consulting bodies in Israel, which combines a deep operational understanding with technology - Process Initiation, Strategic consulting, business plans in the world of content, market research and competitive intelligence, concept building, system planning and characterization, performance research capabilities as one of the leaders in Israel, and more.

q. **API management and hybrid integration solutions**

In recent years, corporate IT has been characterized by a combination of diverse software solutions, which include organizational infrastructures (such as ERP and CRM systems), core systems, digital channels, and all combined with various solutions in the cloud and with external partners. An effective combination of these software solutions, with a "smooth" integration between them, is necessary for the effective implementation of those solutions and the realization of cross-system business processes. This combination requires advanced integration solutions. In addition, the accelerated use of cloud solutions (private and public) by organizations increases the need for effective integration between the on-prem applications of those organizations and the applications in the cloud environments.

The Company specializes in iPaaS API Management solutions and hybrid infrastructures (for combining cloud infrastructures and local infrastructures), with many years of experience in the field of integration and knowledge in the implementation of the leading solutions in the market. The Company implements advanced connectivity solutions for its customers based on a variety of products from companies, such as Red Hat, IBM, Google and Dell Boomi, assists customers in building the correct architecture and enables the solutions to be implemented, from the testing phase to implementation in production. This field supports other trends detailed above, such as Open Banking regulation, modernization of systems, transition to self-service and more. The cooperation with other centers of knowledge and Centers of Excellence in Matrix, in the fields of Information Security, Big Data and the Cloud, makes it possible to create effective solutions for customers and implement them successfully. Matrix's integration solutions are integrated in large projects, as well as in dedicated projects of integration, such as management and general API exposure while implementing the FHIR standard, integration projects in large insurance companies and the enforcement authority.

r. **Artificial Intelligence and Machine Learning applications**

The center of excellence specializing in the fields of "Artificial Intelligence" (AI) and Deep Learning was established by Matrix as part of activity of "Matrix Defense", which focuses on consulting, supporting, characterizing, developing and implementing solutions for the needs of organizations operating in the defense sector. In this framework, solutions were implemented for the defense sector, which is a pioneer and a significant and leading factor in the use of AI and Deep Learning technologies.

In recent years, the center's activities have been expanded and it has begun to "naturalize" the capabilities and adapt them to meet challenges in the civilian/business environment. The solutions include, inter alia, solutions in the fields of text and automation, video, detection of cyber anomalies in large networks, automatic mapping and robotics (autonomous vehicles and drones).

In addition, Babcom's high-tech operation division (see section s. below) offers a unique service that enables the production of tagged data for the needs of AI processes. The activity makes it possible to tag and mark data of various types (text, images, video, audio and more) for AI technologies in a variety of industries, such as medicine, transportation, security, cyber security, retail, agriculture, etc.

With the development of generative models such as ChatGPT, Dall-E, Midjourney and more, Matrix is developing and maintaining the next level of AI, and the integration of AI in all the relevant technological disciplines.

s. **Call Center and Operational Back Office services**
The Company operates in these areas through the subsidiary, Babcom, which is a company with a multicultural character, providing employment solutions in activity centers in the Galilee, in the south and in centers in the social periphery. Babcom specializes in providing managed call center services, technical assistance services, sales center services, operational back office services and data recovery services to organizations, using an outsourcing method. The Company also provides back office, operation and data labeling services to high-tech companies and start-ups. In addition, Babcom is engaged in the field of research based on surveys and predictions based on statistical data, through its subsidiary, SQ.

The corona period led many customers to increase the scope of activity of the service centers, a trend that continues during this period too. Babcom has developed models for the centers and call centers to work from home and the ability to work remotely. Babcom continues to adopt this hybrid work model.

The lack of manpower in the areas of customer services in the central areas means that more customers are looking for Babcom's solutions, which are based on the ability to recruit and retain employees in different areas of the country, especially in the outlying areas.

t. **Management consulting, and multidisciplinary engineering and project consulting and infrastructure project management**
The Company operates in this field through the subsidiary, Aviv. The activity in these areas includes, inter alia, management consulting for organizations (from in-depth and cross-organizational strategic implementation to tactical applications, from operational efficiency to human resource development), project management and administration services, planning management services for environmental projects, master plans, architectural planning and programs. Aviv's activity also includes comprehensive multidisciplinary engineering consulting services, from the phase of strategy formulation to the phases of performance and implementation of the change, including the management of complex projects, as well as well as large-scale infrastructure projects, project management and projects in the field of planning and environmental quality and in the field of transportation.

The Company also operates, through Dana Engineering Ltd. ("Dana"; a subsidiary of Aviv), in the field of management and supervision of mega-projects in the field of infrastructure, while specializing in large projects in the field of transportation such as: trains, roads, interchanges, bridges and tunnels. Dana is also a leading body in the activity of managing residential infrastructure and is certified as a managing company for the Ministry of Transportation, the Ministry of Economic Affairs and the Ministry of Construction and Housing.

In addition, the Company operates in the field of consulting and implementation services in the field of Supply Chain Management and logistical and operational management through its subsidiary, Programa Logistics Systems Ltd. ("Programa"). The activity of Programa includes planning and consulting services in the fields of logistics (including material flow processes and neutralization of materials), operations management, supply chain optimization, planning and management of automated warehouses (WMS) and simulation of such processes, for customers in Israel and abroad.

u. **Digital Healthcare**

Matrix Medika is the brand name of "ITD Ltd", a leading development house in the field of medical products and digital healthcare, which was acquired by the Company. This company provides services in the field of medical technology in regards to software development, privacy and information security services for the health industry, execution of projects and provision of regulatory advice (CA, FDA), among other things, for the purpose of obtaining regulatory approvals for technological solutions in the worlds of medicine. The company develops, among other things, technological solutions for medical surgeries, patient rehabilitation, the worlds of cosmetics and more. Matrix-Medika provides services to start-up companies in the medical sector, a developing and multi-potential market, but also to established, medium and large companies, which do not carry out all the development and/or regulatory procedures themselves, and medical entities such as hospitals, health funds and private entities, in the context of projects concerning the clinical/regulatory dimension (e.g. end-devices) and/or requiring the application of several technologies.

What is stated in this section 7.1.1 (with all its sub-sections) regarding trends, developments, assessments and the Company's activity accordingly in the relevant fields contains forward-looking information, as defined in the Securities Law, based on management's assessments and business experience and public information. The information may not materialize, in whole or in part, or materialize differently, including materially differently than expected, among other things, as a result of an economic slowdown, as a result of market competition and/or as a result of the materialization of all or some of the risk factors listed in section 19 of the report.

7.1.2 The services offered to the Group's customers in the field of information technology solutions and services, consulting and management in Israel

The solutions and services of information technology, consulting and management in Israel, which the company provides to its customers, include providing solutions as detailed below, all according to the specific needs of each customer.

The Company's activity in the field of information technology solutions and services, consulting and management in Israel is an ongoing activity over time. The information technology solutions and services, consulting and management provided by the Company to its customers in Israel are mainly provided within the framework of two types of engagement: [a] agreements to perform work at a fixed price, in which the content of the work and the final product, the delivery date, the total price and the terms of payment are defined; [b] agreements to perform work for payment according to "time & material". Most of the Company's revenues derive from the agreements priced according to time and materials, in which the contractual price is paid according to the actual working hours of the Company's employees, subject to a price list (hourly, daily, monthly, etc.) established between the Company and the customer, although some of the agreements at a "fixed" price from the Company's revenues are on a constant upward trend. Also, some of the services in this area are provided in a "managed services" model, according to which the proceeds are determined on the basis of products delivered in a predefined work specification (SOW - Statement of Work). Regardless of the contract model, some services are provided by the Company in a cloud environment.

Some of the Company's solutions for its customers are based on systems developed by the Company, mainly for banking and finance and vertical solutions for the field of Enterprise Resource Management (ERP), and most of them are provided based on systems developed by third parties. The systems and additional modifications are sold to the customer as a total transaction. In other cases, the services and solutions are based on dedicated development for the customer, not relying on off-the-shelf solutions. In most cases, after the delivery of the systems to the customer, the Company continues to provide customers with maintenance and support services for the systems.

The Company provides a limited warranty for software solutions developed by it. During the warranty period (usually up to a year) or during the maintenance period, the Company corrects defects discovered in the system. Revenues received from providing maintenance services, as well as expenses for warranty and maintenance, are not material. In light of past experience, the Company does not accrue a provision for liability in its accounts, but reflects the warranty to its customers within projects through the mechanism of recognizing revenues from projects.

For details regarding the revenue recognition policy, see note 2 to the financial statements.

7.1.3 Customers

The Company's activity in this area is focused on companies and organizations, medium and large, operating in most (if not all) different sectors of the economy: banks and financial institutions, insurance companies, credit companies, hi-tech companies, industrial plants, marketing and distribution chains, government departments, the Ministry of Defense, Israel and more.

The Company has hundreds of customers in the field of information technology solutions and services, consulting and management in Israel. Most of the customers in the field of activity have been customers of the Company for over 10 years.

This field of activity does not depend on any customer or a small number of clients. At the same time, if the Company's engagement with some of its major customers is terminated all at once (in particular in the banking and finance sector and/or in the government and security sector) or if the terms of the engagement with these customers change substantially for the worse, the results of the Company's activity may be impaired as a result.

For details about the order backlog, see section 8 below.

7.1.4 Marketing and sales

Sales and marketing are managed from the Company's headquarters, through the Company's sales and marketing departments, which deal with sales through broad initiatives, work with the various target populations, existing and new, retention, leveraging and opening new markets and opportunities, as well as contact with the Company's key suppliers as well as the Company's marketing strategy at the level of headquarters and divisions.

The sales and marketing activity is adapted to the unique characteristics of each sector. Each of the sectors has a dedicated sales and marketing group, where the sales activity is carried out by sales personnel who have unique training for the sector in which they operate. The Company also employs personnel in the business units that offer the Company's various services. The Company, in some cases, procures content experts from among its business partners in marketing activities with potential customers.

The Company's sales and marketing system is aimed at expanding the customer base, as well as expanding the scope of activity with the existing customer base. The sales method is in most cases direct, while maintaining contact with existing customers and expanding the services provided to them, and proactively and directly contacting organizations that have been marked as a sales target.

In addition, the Company also employs a central sales team that operates in two configurations:

First, seeing a broad customer picture, which allows the Company's customers to benefit from its wide basket of services, while integrating cross-divisional solution elements. In this sales model, sales managers have been defined who are also "client portfolio managers" of key clients - defined as Chief Business Executives (CBEs), who, by virtue of their function, know the customer and its activities in depth, and work to provide him with as complete a package of solutions as possible.

Second, sales personnel who are responsible for taking the Company's full basket of services and exporting it outside of Israel through various sales channels - directly with customers, through third-party sales channels or through the subsidiaries in the US and passing them on to their customers.

Following a trend that developed during the corona period, the Company intends to continue to operate models of sales activity in online relationships with potential customers and online seminars and professional events, which were focused on specific customer segments and/or on specific solutions for the target population, as a complementary activity to direct sales.

In addition to the ongoing sales activities, the Company initiates additional marketing activities, through advertising in the press, participation in exhibitions (as far as these are possible), mailings and organizing virtual conferences and seminars, as well as digital campaigns.

The Company's expenses for marketing and distribution in this field of activity are not material.

7.1.5 Competition

There are many entities that provide information technology solutions and, consulting and management services. To the best of the Company's knowledge, its competitors in this field include: Hilan, Maam-Team, One, Kyndryl, IBM Israel, Aman, Elad, Yael, Emet Computing, Amanet, Abra, SQLink, Log- On, HMS, AllCloud, Consist, Methoda, Comsec, and more. In addition, there are dozens of medium and small companies operating in Israel, specializing in the fields of activity in which the Company is engaged, which are also among its competitors. The Company does not have a firm assessment regarding its market share in this area.

The trend of expanding the services offered by the large accounting firms ("the Big-4") continues, also for services in the field of IT, in subjects such as: BI, Cyber, ERP, CRM, Cloud and more, as well as services in the field of consulting and management. These services constitute direct competition for the Company's business, and in particular, in light of the accessibility of these firms to senior decision-makers in the Company's potential customer base. The more this trend of the activity of the Big-4 companies in the IT fields in Israel increases, the more it will be an inhibiting factor in the development of the Company's business, due to the increase in competition.

In addition, the acquisition of IT companies by private equity funds with large cash resources, similar to those carried out in recent years, may make significant financial resources available to the acquired companies competing with the Company, thus intensifying the competition against them.

Most information technology solutions and services, consulting and management provided by the Company are not characterized by a unique specialization, and therefore, the entry level of potential competitors in this field is relatively low.

Nevertheless, in the Company's estimation, its expertise in providing information technology solutions and, consulting and management services in certain industries and sectors, its management team, the professional workforce at its disposal, its efficient utilization, experience and the reputation it has gained in providing information technology solutions and consulting and broad managementservices, its scope, size and financial strength, as well as the wide range of products that the Company offers to its customers, give it important relative advantages. Also, in the Company's estimation, the wide variety of solutions offered by the Company, under one roof, give it an advantage in dealing with large and complex projects, which require a variety of specializations and solutions, combined with their integration into an overall solution.

As part of dealing with the competitive conditions prevailing in this field of activity, the Company is constantly working to expand its product portfolio, inter alia, through acquisitions and/or locating software providers and additional business partners, as well as developing new models for providing services, including in the cloud. In addition, the Company invests many resources in the recruitment process of quality personnel, cooperates with other entities (mainly in large-scale projects) and also expands its investment in the presale stages.

What is stated in this section regarding the Company's competitors and its implications for the Company's activities, for the Company's positioning vis-a-vis its customers, is forward-looking information, as defined in the Securities Law, and is based on management's assessments and business experience. The information may not materialize, in whole or in part, or materialize differently, including materially differently than expected, among other things, as a result of market competition and/or as a result of the materialization of all or somet of the risk factors listed in section 19 of the Report.

7.1.6 Intangible assets

See note 9 to the financial statements.

7.2 Information technology solutions and services in the United States

For the rates of contribution (in percentages) of this field of activity to the Company's revenues and profit from ordinary activity for 2021 and 2022 in the USA, see section 1.2.3 of the Report of the Board of Directors.

7.2.1 General; Types of services in the field of activity

In the Information technology solutions and services in the US segment, the Company operates through two divisions under the subsidiaries , Matrix US Holding LLC and Xtivia Technologies Inc, which own several subsidiaries in the USA, including Matrix-IFS (Matrix International Financial Services) (originally Exzac, Inc.) and NIT (Network Infrastructure Technologies Inc.) (Matrix Global Services USA) - ("the Subsidiaries"), in the fields set forth below:

a. The Company provides its customers with Expert solutions and services in the field of GRC and Financial crime, including activities in the following areas: Financial risk management, Fraud prevention, Anti money laundering, Trade control, Trade surveillance and ensuring compliance with the regulation (Compliance) in these subjects, banking payment services, as well as advisory services specializing in the field of compliance with financial regulation in the US, including periodic audits (tuning, segmentation and model validation) in this field. In addition, the Company is taking steps to provide solutions based on robotic automatic processing (RPA) in these areas..

   Risk management and compliance with regulation in the financial sector are critical issues with extensive business implications for organizations in the financial sector and their treatment is spread over complex issues and a long list of applicable regulations, for example: Know Your Customer (KYC), Customer identification programs: (CIP) and Customer due diligence (CDD), prevention of money laundering (AML - Anti Money Laundering), fraud prevention, regulatory requirements in the field of trade control (Trade surveillance) and more.

   The Company has offices engaged in the provision of GRC services in the USA, Canada, London and Israel.

   Most of the Company's customers in the field of GRC are financial entities abroad.

b. MATRIX US HOLDING LLC ("Matrix US") performs projects and provides global services through personnel from across the Matrix Group, as a gateway to a business model for exporting the Company's services and products in the USA. During 2022, the Company carried out several significant projects of software development, sale of software licenses, cloud architecture and other services in this model.

   In addition, Matrix US is a source of assistance for Israeli start-up companies that want to break into the US but lack a local presence. The Company offers them a "foot in the door" in the United States and provides them with all the local needs they require from their customers in the first stages of growth, in order to break into the US market. In some cases, these customers also become the partners of the Company, so that in addition to needing IT services, they also benefit from the Company's customer service in the US, the sales and marketing capabilities, and another sales channel and increase their share of income through this service.

c. IT services for the Healthcare sector - the activity in this field is focused on services of Clinical Support Electronic Medical Records (EMR) and IT Help Desk and Desktop Support services, specialists for the healthcare sector in the USA. The openness of healthcare organizations to promote Digital Healthcare at the same time as the need to carry out a process of migrating to the cloud and increasing the level of service translates into increased budgets and project approvals which consituted a continued base for growth in 2022.

d. Specialized technological solutions and services in the field of information technologies, provided by the subsidiary, Xtivia, to a wide range of customers in the US, mainly in the following areas:

   - Development of complex portals, mainly based on the Open-Source infrastructure of the company, Liferay, as well as based on the infrastructures of other manufacturers, including OpenShift, Dell Boomi and Kubernetes, combined with the services of DevOps in this area.
   - Planning, developing and implementing CRM systems in a variety of technologies, with an emphasis on Salesforce and Microsoft solutions.
   - Consulting and implementation in the fields of EIM, among other things, based on Data Governance solutions.
   - Database support – Xtivia supports most databases on the market (Informix, MySQL, DB2, MSSQL, Oracle, PostgreSQL, MongoDB, Redis and more). The Company has developed tools for remote control of its customers' databases and support is provided by a combination of remote support (Virtual DBA) and on the customer's website.
   - Dedicated solutions for suppliers of products and services to the US government (GovCon - Government Contracting), based on Microsoft NAV software and the development of vertical applications for this field, which are the Company's IP.
   - Provision of implementation, consulting and support services of BMC and Atlassian products mainly to public-government sector customers in the US, through the subsidiary, Rightstar.
   - The sale of software products such as: IBM, Atlassian, Infor, Liferay, BMC, Microsoft, Oracle and more, including to the Ministry of Defense.

   Xtivia operates a development and support center in India, which serves its operations. This development center allows Xtivia to lower customer costs and be more competitive.

7.2.2 The services offered to the company's clients in the field of information technology solutions and services in the US include:

Specialized consulting and advisory services in the field of financial regulation, and the development, adjustment and implementation services in the field of GRC by the Company's subsidiary, Matrix-IFS. These services are provided on off-the-shelf solutions for regulatory control and risk management systems, such as Actimize, Oracle Financial Crime Systems, IBM Safer Payment, Bottomeline Technologies, FICO, NASDAQ OMX Smarts, and more, and supporting information analysis systems (such as SAS).

These solutions require extensive planning, adjustments and implementation work, which relies on experience and expertise in the area of activity and in the supporting systems, in order to meet the regulatory requirements. In addition, often, the off-the-shelf solutions do not meet the needs, and dedicated customized development work is required to satisfy the customer's requirements.

A significant part of the activity of Matrix-IFS is based on systems of leading manufacturers, for which the Company provides supporting services. If Matrix-IFS's relationships with those manufacturers change materially for the worse, or if those software manufacturers expand the services they provide directly to customers, Matrix-IFS's revenues and profits could be materially impaired.

What is stated in section 7.2.2 above, regarding the relations of the subsidiary, Matrix-IFS with leading manufacturers and their implications for the Company's activity is forward-looking information, as defined in the Securities Law, and is based *on the Company's assessments and business experience. The information may not materialize, in whole or in part, or may materialize differently, including materially differently than expected, among other things, as a result of the materialization of all or some of the risk factors appearing in section 19 of the report.*

- In the fields of consulting, planning, development, testing and implementation services provided by the subsidiary**,** Xtivia**,** and its subsidiaries, the **C**ompany cooperates with a wide range of technology providers, focusing on open source solutions.
- In addition, the Company makes use of a number of tools and technologies that it has developed, such as tools for remote monitoring of databases, which form the basis of the Remote Managed Data Base Service, provided by the Company.
- Xtivia implements, through its subsidiaries, solutions from a number of technological solution providers in its areas of expertise. The Company's customers communicate directly with the technological solution providers in its areas of expertise, or through Xtivia itself, when it acts as a distributor, and the Company provides its customers with consulting, development and implementation services based on the solutions of those providers.
- The software solutions and services provided by the subsidiaries to their customers are mainly provided within pursuant to agreements for the performance of work for payment according to "Time & Material", in which the price is paid according to the actual working hours of the Company's employees, subject to a price list determined between the Company and the customer, and rarely in agreements at a fixed price (Fixed Price).
- The Company performs projects and provides global services in the United States, through its subsidiary, Matrix US, using personnel from across the Matrix Group, based on the combination of a local presence in the USA of sales and project managers, with a high-level and rapid ability to perform in many required areas through the Group's companies in Israel.
- Accordingly, the Company has developed an integrated practice of hybrid sales (from Israel and the US), with local (American) project management and remote (Israel) performance management.

7.2.3 Customers

In the field of GRC (Governance, Risk and Compliance), the Company's activity is focused on customers from the banking and finance sector (including global banks in the USA, Canada and Europe) and is not dependent on any customer. However, if the Company's engagement with some of its major customers in this sector is terminated all at once or if the terms of the contract with these customers materially change for the worse, the results of the Company's activity may be impaired as a result.

In addition, the Company provides additional services as mentioned above to customers in all of North America, including government institutions in the USA. The Company's customers are in a wide variety of sectors of activity and sizes ranging from small customers to huge corporations.

For details regarding the order backlog, see section 8 below.

7.2.4 Marketing and sales

Sales and marketing are managed from the headquarters of the subsidiaries in the United States through the sales and marketing departments of each of the subsidiaries, in conjunction with the marketing and sales headquarters in Israel, which deal with sales through broad initiatives, work with the various target populations, existing and new, retention, leveraging and opening new markets and opportunities, as well as contact with Company's key suppliers, and more.

The sales and marketing activity in the field of GRC and Financial Crime is adapted to the unique characteristics of the banking and finance sector. Sales activity is carried out by sales personnel who have undergone unique training for the sector in which they operate, including some of the managers of the subsidiaries. The subsidiaries also operate the activity managers in the business units that offer the various services of the subsidiaries.

The sales method is in most cases direct, while maintaining contact with existing customers and expanding the services provided to them, and proactively and directly contacting organizations that have been marked as a sales target.

The subsidiary, Xtivia, also operates a remote telephone sales center from the Company's site in India. The subsidiary, NIT, also operates a telephone sales center (in the USA).

The expenses of the subsidiaries for marketing and distribution in this field of activity are immaterial.

7.2.5 Competition

There are many entities in the US that provide services in the subsidiaries' fields of activity. In some cases, competition is against companies that provide offshore services (mainly from India) at discounted rates. The Company does not have a firm estimate of its market share in this area, but its market share in the US is negligible.

Some of the services provided by the Company in this field of activity are characterized by a unique expertise and some have a low competition threshold, in which the entry of potential competitors is relatively easy.

In the field of GRC, the Company competes in some cases against giant corporations, such as IBM, Accenture, Oracle and the consulting firms of the Big-4 accounting firms, as well as the manufacturers of the system who provide implementation and support services for their systems, which compete with the Company's services.

As part of dealing with the competitive conditions prevailing in this field of activity, the Company is taking steps to reduce the cost of its services by performing some of the activities in the Offshore Centers in India (Xtivia), the Nearshore Development Center in Tampa, Florida, recruiting employees for full-time remote work all over the USA and by use of development resources in Israel.

The Company is also working to expand the basket of services that it offers (inter alia, through additional business partners, as well as the development of new models for providing services) as well as to expand its activities through acquisitions.

7.2.6 Intangible assets

See note 9 to the financial statements.

7.3 Sales, marketing and support of software products

For the rates of contribution (in percentages) of this field of activity to the Company's revenues and profit from ordinary activity in 2021 and 2022, see section 1.2.3 of the Report of the Board of Directors.

7.3.1 General

The activity in this field is focused on the distribution, sale, support and implementation of software products and software infrastructures of software companies (mainly international) leading in their field. The activity includes professional teams authorized by the software manufacturers to provide pre/post sale support services, implementation, training and maintenance.

The Company serves as a distributor of software products in various fields, such as products for managing computer systems, infrastructure products for business service management (ITSM), a variety of open source systems, systems for monitoring and managing user-experience, software products in the field of software development life cycle management (ALM), software products for linking applications, information security products, virtualization, knowledge management products, databases and Big Data, software development tools and testing software from leading software companies in their field, such as BMC Red Hat, PTC, etc. The Company is also taking steps to strengthen its activities in the field of engineering computing and PLM solutions that the Company markets as a gateway to the field of IIOT - Industrial Internet Of Things and "Industry 4.0".

Main trends during the period of the Report:

a. The cloud computing trend has developed significantly in recent years and gained increased momentum during the corona period, and, at the same time, a significant transition to the use of software applications as a service (SaaS) has occurred..
   The trend of building large data centers in Israel by international entities and the establishment of the governmental and public cloud infrastructure ("Nimbus") lead the Company to prepare accordingly in cooperation with the manufacturers that it represents, for sales services also through the Public Cloud Market Place.
   To the extent that the Company's preparations for providing such solutions to its customers, as mentioned, will be effective, this will lead to an increase in the company's sales volume. On the other hand, if the Ccompany is not prepared for the needs of the customers, this may impair the scope of the Company's sales.
   The Company is monitoring the policy of the software manufacturers that it represents, who are preparing to offer the software products in a SaaS pricing model and in an operational model, as well as other software manufacturers who will be added to the portfolio of products that it represents.

b. The trend of software manufacturers to move from a licensing model of perpetual licensing and annual maintenance to a model of annual subscriptions continues. Changing the model entails a number of changes such as a different revenue stream, spread uniformly over time. Also, a different work model with the customers, since they can replace the software more easily, i.e., customer retention and customer satisfaction become more significant in this model. The transition to the subscription model results in a reduction of the Company's current revenues from software products in the short term, but, on the other hand - in the medium-long term, expands the Company's recurring revenue base.

c. The trend continues on the part of a growing number of the organizations and companies to base some of their information systems on open source solutions. The Company is connected in an agreement to market the software solutions of Red-Hat (which was acquired by IBM), which is considered the world's leading commercial entity in the field of open source solutions, and has expanded its activities in the field to additional open source products, such as virtualization solutions and DevOps solutions. According to the Company's assessment, if and to the extent that open source solutions (both in the field of operating systems - Linux, and in other fields such as application servers, virtualization and DevOps) deepen their penetration into companies and organizations, the fact of being the marketer of leading solutions in these fields may lead to an increase in the Company's sales volume in the field. In accordance with this trend, the Company continues to expand its offering of solutions based on open source.

d. The trend of end-to-end automatic digital management - the digital acceleration and availability requirements (availability and flexibility) require organizations to respond to employees in the form of advanced and smart systems that are not dependent on a specific time or place and can be activated in a variety of channels (including the mobile phone), including LMS learning systems and infrastructural applications for daily operation (attendance, transportation, measurement system).

e. In response to the trend of a shortage of skilled technological personnel, which increases knowledge retention requirements in the organization, the Company has expanded its portfolio of solutions with software solutions that help with proper business continuity, for remote guidance using AR, solutions for automating processes, a platform for developing applications within the organization with the help of Low-Code solutions, and an advanced forecast solution to prevent breakdowns.

   What is stated in this section 7.3.1 (on all subsections in this section) regarding developments and trends in the field is forward-looking information, as defined in the Securities Law, based on management's assessments and business experience. The information may not materialize, in whole or in part, or materialize differently, including materially differently than expected, among other things, as a result of an economic slowdown, as a result of market competition and/or as a result of the materialization of all or some of the risk factors listed in section 19 of the report.

7.3.2 Products and services

The Company's activity in this area includes the distribution, marketing, sale, consulting, application, support and implementation of software products (mainly from abroad), the most important of which are: [1] Infrastructure solutions used mainly by information system managers in organizations to operate and control systems, as well as to manage system IT services (such as BSM & ITSM); (2) Solutions in the field of life cycle management for software development (ALM) which are intended for software development managers in the organization; [3] Applicative solutions used by the organization itself in managing its business (such as: CRM, HR, BI, PLM , LMS, etc.); [4] Solutions for managing the organization's databases with an emphasis on data mining, database management and generating insights (Data Science/Forecast Analytics/BIG DATA Management platform/AI); [5] Solutions for smart industry 4.0 and advanced engineering solutions (IoT/CAD/AR/PLM). [6] Integration, communication and information security solutions at all levels, through the subsidiary, Zebra, which was acquired by the Company and will be consolidated in its financial statements commencing the beginning of 2023. Zebra distributes software products of leading international software manufacturers in the fields of information security and communication.

The Company has agreements with a large number of software manufacturers from abroad for marketing (in most cases not exclusively) their products in Israel, as well as with a number of software manufacturers from Israel. In addition, and in order to keep the product line that it markets up to date, the Company operates a business development team which identifies new trends and products in the local and international markets in order to contract with new suppliers to expand the product basket offered by the Company.
In some cases, the Company is actually the only entity (even if not on the basis of an exclusive distribution agreement with the supplier) that represents and markets the said software products in Israel, and in some cases, there are other entities that sell and distribute those products, including, in some cases, by local branches in Israel of the software manufacturers. The marketing rights are usually renewed every year or every period. According to the Company's assessment, in light of its past experience, most of the aforementioned agreements have been renewed (except in cases where the software supplier has been purchased by another company).

In the perpetual license sales model, the Company enters into agreements with its customers for the sale of the software for a lump-sum payment, as well as maintenance agreements according to which it provides them with maintenance services for the products it markets, in accordance with the requirements and needs of its customers, and at prices set in negotiations between the Company and its customers, based on the maintenance price lists of the software manufacturers.

In the subscription model, the Company enters into agreements with its customers for the use of the software products based on a monthly/annual subscription price. These signed agreements are for a period of one year or more. As stated above, pursuant to this engagement, customer satisfaction is critical to renewing the subscription, and therefore, the Company invests heavily in maintaining the satisfaction of its customers, to guarantee customer success.

The Company provides software products of various types, to some of which it adds a diverse accompanying team of experts and tools, which includes, inter alia, the establishment and adjustments of off-the-shelf products, add-ons for products, migration services, translation services and adaptation to the needs of the local market, support and training services for products, integration between different solutions, etc.

The Company provides its customers with support, maintenance and version update services for the software products that it markets. To this end, the Company operates, among other things, a support center (Help-Desk) to handle inquiries from customers, which is ISO certified and audited.

Following the engagements with the customers, the Company purchases the software products (or the subscription to the software product) from the appropriate software manufacturers (either according to the prices in the agreements, or at prices that include special discounts, especially in cases of sales to large customers and/or in large-scale transactions). Although the products are intended for the Company's customers, the Company is usually the party responsible for the customers, including the financial risks related to contracts with the software manufacturers (such as customer credit, cancellations and/or changes in the agreements, return of products, etc.).

The software products marketed by the Company are sometimes integrated within the software solutions that it offers. In other cases, the sale of the software products is combined with solutions, products and services, which are provided by business partners with whom the Company has contracted and are sold in combination to the customers of said partners, as part of a solution / product for the final customer (OEM).

In some of the product lines, the Company also offers implementation and integration services of the products in the customer's systems, including training and support at the customer's request.

The Company handles the problems that arise in connection with the software that it markets - in some cases, without the customer being required to contact the software manufacturer directly (1st and 2nd level support), and in some cases, with the assistance of the software manufacturer (3rd level support). In some cases, the Company provides a warranty for a period of up to twelve months for the software packages that it provides (usually back-to-back to the warranty period provided by the software manufacturers). In light of past experience, the Company does not record in its accounts a provision for the warranty. At the end of the warranty period, the Company offers its customers to enter into a maintenance agreement for the system for a fee.

7.3.3 Customers

The Company's activity in this field is focused on companies and organizations, medium and large, operating in a wide variety of economic sectors: banks and financial institutions, insurance companies, high-tech companies, industrial plants, marketing and distribution chains, government ministries, national infrastructures, the IDF, start-up companies, and more. In addition, the Company sometimes sells the software products through business partners, who provide software solutions that are based in part on the software products sold by the Company. In some cases, the software products, sold by the Company, are sold to customers who integrate those products into their software solutions, which are sold to end-customers of those customers of the Company (OEM agreements).

The commitment for the sale of the software product is usually made directly between the Company and the customer. The software maintenance services provided by the Company are priced as a percentage of the price of the software product. The implementation of the products is priced based on a price-list (hourly, daily, monthly, etc.) established between the parties or on a project basis at a fixed price.

The field of sales, marketing and support of software products is not dependent on any one customer or a limited number of customers. At the same time, if the Company's engagement with some of its major customers, in particular, in the banking and finance sector, ends at the same time, or if the terms of the engagement with these customers change substantially for the worse, the results of the Company's activities may be impaired as a consequence.

For details regarding the order backlog, see section 8 below.

7.3.4 Sales and Marketing

The marketing and sales activity is divided into marketing and sales by sectors and marketing and sales by product lines or a combination of the two (a matrix structure).

Marketing and sales activity by sector is based on sales personnel who offer a range of software products for a certain sector. Usually, the said marketing and sales personnel have unique training and experience for that sector. In certain product lines (such as Open source products, Computer infrastructure management and Service management, Software development life cycle management products, Information security products, and more) there is a specialization of the sales people in a specific product line that they offer to different sectors (usually in combination with the sectoral sales managers).

In addition to the current sales activities, the marketing personnel initiate marketing activities of software products, through participation in exhibitions and organization of conferences and seminars. Naturally, during the Corona period these are mainly held online.

The Company's expenses for marketing and sales in this field of activity are immaterial.

7.3.5 Competition

The Company is in competition with many entities operating in the field of software products, competing in each of the product lines that it sells. In most cases, the Company competes with Israeli companies, which sell competing software produced by software manufacturers abroad or in local branches of software manufacturers from abroad. In a minority of cases, the Company competes with Israeli companies that have developed competing software products.

The unique factors affecting competition in this area are the relative positioning of the products sold by the Company, the experience and ability in product maintenance and support and the applicative experience regarding the software products sold. To the best of the Company's knowledge, the Company's main competitors in this field are, among others: Hilan, Malam-Team, One, Microsoft, IBM, HP, Oracle, Yael, Amen, Emet Computing, Log-On, Elad, Methoda, Consist, and more. Also, the cloud infrastructure providers such as AWS, Google and Microsoft Azure are competition by offering to purchase a subscription to third-party software directly from them. The large number of competitors in this field of activity is due to the fact that each product line has different competitors.

The Company does not have an established assessment regarding its market share in this area.

7.3.6 Suppliers

A significant part of the Company's activity in this area is based on a number of large suppliers (software manufacturers), in addition to additional, smaller suppliers, for whose products the Company acts as an authorized supplier in accordance with the distribution agreements signed with them. If its engagement with these suppliers or with most of them is terminated, or if the terms of the engagement change substantially, or if the demand for the said suppliers' products substantially decreases, or if additional distributors are appointed to those existing today, or if these suppliers are purchased by competing software manufacturers, or if these suppliers expand the scope of their direct activity in Israel, the Company's revenues and profits from this field of activity may be substantially impaired.

What is stated in this section *7.3 (with all the subsections in this section) regarding developments, risks, opportunities and trends in the field is forward-looking information, as defined in the Securities Law, based on management's assessments and business experience. The information may not materialize, in whole or in part, or materialize differently, including materially differently than expected, among other things, as a result of an economic slowdown, as a result of market competition and/or as a result of the materialization of all or some of the risk factors listed in section 19 of the report.*

7.3.7 Intangible assets

See note 9 to the financial statements.

7.4 Cloud infrastructure and computing

For the rates of contribution (in percentages) of this field of activity to the Company's revenues and profit from ordinary activity in 2021 and 2022, see section 1.2.3 of the Report of the Board of Directors.

7.4.1 General

a. In the field of cloud and computing infrastructure activity, the Company's activity includes:

[1] Sale, service and support in the public cloud (PaaS, SaaS, IaaS) and in the private cloud through the CloudZone unit; for more details - see section 7.4.2 below.

[2] Providing infrastructure solutions for computer systems that include, among others, the establishment of server rooms.

[3] Sales and marketing of personal computers, stationary and mobile, servers, workstations, tablets, storage systems, backup, Disaster recovery plan (DRP), Business continuity plan (BCP) and peripheral and related equipment including monitors, printers, copiers, cases and communication cabinets, printing centers and data centers. The Company works with the major manufacturers as business partners, including HP, Lenovo, Dell, Intel, EMC, Cisco and Apple, and in common work environments including Microsoft, VMware, Red Hat, Oracle/EMC, and more.

[4] Maintenance services for computers and complementary equipment which include implementation, upgrading, management, monitoring and full responsibility for the ongoing operation of computing and communication infrastructures at the customer's site and in the public and private cloud infrastructures, software and hardware maintenance, support and maintenance, laboratory services, PC and network technician services, managed and centralized IT services User support and 24/7 Help Desk, customer service call centers nationwide and placing professional personnel at the customer's site and at remote sites.

[5] Consulting and providing professional services in the field of integration and computing infrastructure include feasibility and technological compatibility tests, risk surveys, characterization, planning, development, installation, implementation, training, management, control and the implementation of projects in the field of integration.

[6] Solutions in the field of NoSQL Databases and Big Data using the DataZone unit.

[7] Outsourcing, partial or full, at the client's sites or at remote sites.

[8] Providing infrastructure solutions for communication systems for organizations, including, inter alia, passive and active communication networks, communication switches, IP exchanges and other advanced communication solutions.

[9] Import and distribution of professional audio equipment and professional lighting, through the subsidiary Tech Top Marketing Ltd.

[10] Providing a basket of solutions in the field of office mechanization and printing and document production services through the subsidiary, Gestetnertec Ltd. Also, 3D printing services and marketing of compatible equipment through Caliber - Engineering and Computers Ltd., a subsidiary of Gestetnertec.

[11] Projects in the field of multimedia, command and control through the subsidiary, AVB Technologies (AVB). AVB provides a range of services and products in the field of multimedia systems and control rooms. AVB specializes in consulting, product development, planning, supply, installation and maintenance of multimedia systems, providing solutions and implementing complex projects that require a high level of integration with end-to-end responsibility, including the construction of smart meeting rooms, video conference rooms, smart display solutions, video walls , control rooms, advanced audio solutions, smart display solutions, security applications, simulators, command and control systems, smart electricity, digital signage, announcement systems, passive communication infrastructures, system integration and computer communication.

[12] Control and automation solutions and systems, test and measurement equipment (TME), advanced technological solutions for testing data communication, EMC and

Radio frequency (RF), through the subsidiary RDT Equipment and Systems 1993 Ltd., which was purchased by the Company in 2022 and serves, inter alia, as a representative in Israel of dozens of international companies in the aforementioned fields.

b. The solutions offered by the Company in this field of activity also include value-added services in the fields of: cloud services (including consulting, architecture and implementation support), end infrastructures, data communication, local and spatial networks, multimedia solutions, the full range of services in the Microsoft environment, storage and backup, security information, links and comprehensive solutions for the Internet environment.
The added-value solutions in the field of infrastructure constitute another layer in the basket of products, services and solutions that the Company offers its customers, a fact that allows it to provide a comprehensive solution in the field of IT. The existence of the field of organizational software infrastructure and the field of computing and communication under one roof may improve the Company's competitiveness to carry out comprehensive projects in the field of IT.

c. The Company maintains adequate inventory balances while taking into account demand levels and product availability. Accordingly, in recent years, the Company has prepared and planned long-term available inventory, paying attention to the global problems in the production and supply chain, reflected, inter alia, in the long shipping times. This preparedness contributed to the Company's ability to provide its customers with solutions in a reasonable time even during periods of difficulties in delivery dates.

7.4.2 The services offered to the Group's customers in this field of activity:

a. Infrastructure solutions for computing and communication systems and sales of hardware and peripherals including marketing and sales of servers, desktop and mobile computers, handheld computers and workstations running under Windows operating systems, marketing of storage and backup systems (such as EMC), sales of PC products based on the Intel platform, Integration into computer networks, sale and implementation of Microsoft products as well as providing service and maintenance for said products. In addition, the cloud and computing infrastructure division specializes in virtualization solutions based on VMWare products.

The Company supplies the computer systems that it markets both as products that integrate into the customer's existing computer system and as complete computer systems. The maintenance services are provided both to customers to whom the Company is obligated to provide service as part of a warranty provided for the products, both to customers bound by service agreements and to occasional customers.

b. CloudZone - a dedicated unit in the cloud and computing infrastructure division, which coordinates the cloud solutions marketed by the group. The unit offers "Enterprise" organizations, SMB organizations and startups cloud computing services managed by a professional and experienced team of experts. The unit's services include response and support in all stages of the implementation cycle: consulting, architecture, development, implementation, environment management and support. The unit provides services and responds to a variety of business scenarios. The unit is a partner of the leading cloud providers: Amazon Web Services, Microsoft Azure, Google and is a Premier Consulting Partner and Reseller of Amazon Web Services, Gold Microsoft, Cloud Service Provider and Google Cloud Platform Reseller and provides a wide range of professional services in the field.

The unit sells hybrid cloud solutions that combine private cloud solutions (passive infrastructures in local and international server farms) together with a public cloud, and thus provides solutions that enable improved infrastructure performance and faster access to the public cloud from local infrastructures in Israel.

In addition, the Company has expanded its activities in the field of hybrid clouds to private cloud services known as InnerCloud. As part of InnerCloud, the Company has established a private cloud in Israel, which enables it to provide a unique hybrid solution to customers through, among other things, a high-speed direct connection to the three leading cloud providers.

c. Services in the field of large-scale information infrastructure management and research are provided through the DataZone business unit - a dedicated unit in the cloud and computing infrastructure division, which provides comprehensive solutions for the management and research of new generation databases - NoSQL, Big Data, etc. The unit offers organizations a comprehensive solution to business problems arising from multiple sources of information, and the rate of information flow is significantly faster than before. The unit's services include accompanying in the stages of architecture characterization, technological research, examination and evaluation of the necessary solutions, implementing the solutions until they go live and providing training and certification to customers on the technology. The unit is a partner of leading companies in the global Big Data market, including Elastic and Couchbase.

d. The Company operates through the subsidiary, AVB, and provides the set of services and products required for a complete and high-quality solution of applications in the field of multimedia systems and control rooms to a wide range of customers from all sectors of the economy: high-tech companies, telecoms, data communication companies, industry and defense, medical institutions, banks , educational and academic institutions.

e. The Company operates in the field of office mechanization through its subsidiary, Gestetnertec, which provides businesses with comprehensive solutions in the world of printing services, document production and knowledge management and markets, among other things, advanced office mechanization solutions, including: laser printers, photocopiers, fax machines, shredders and auxiliary equipment for handling documents (such as binding, cutting and more) and software for managing printing and printers in local networks.

   Gestetnertec provides service for tens of thousands of machines of various types, new and used, installed at its customers' premises, including the manufacturers: Canon, Triumph-Adler, Samsung, Ricoh, Develop and Xerox.

   The Company also operates in the field of 3D-printing services through the Company Caliber (a subsidiary of Gestetnertec), which is engaged in the distribution, sale and service provision of sophisticated engineering solutions, which include unique software, a service of scanning and printing 3D-models.

f. The subsidiaries RDT and Asio, which were acquired by the Company in 2022, provide their customers with equipment from the world's leading manufacturers in the field of testing, measurements, communication and computer vision. In addition, the companies supply projects and solutions in the field of automation based on controllers, sensors, cameras, etc. RDT and Asio also provide their customers with repair and calibration services in the Company's laboratories and at the customer's facilities.

7.4.3 Customers

The Company provides the solutions, services and products to a wide range of customers in the various sectors of the economy. Most of its customers in this field of activity are medium and large-size companies operating in the fields of industry, high-tech, finance, as well as public and government institutions and educational institutions and local authorities.

Gestetnertec provides service to approximately 6,500 customers. Gestetnertec's common engagement model with its customers is based on a service contract for a period of 3-5 years.

For details regarding the order backlog, see section 8 below.

7.4.4 Marketing and distribution

The Company operates separate marketing and sales teams to the computer and communication infrastructure solutions sub-field, the cloud solutions sub-field, the computer and peripheral equipment marketing sub-field, the printing services and office automation sub-field and the control, automation and test equipment sub-field. In each sub-field as mentioned, marketing and sales activity is carried out by dedicated sales personnel. Usually, the said marketing and sales personnel undergo dedicated training for that activity. The marketing and sales activity in each sub-field is divided into marketing and sales according to the product lines and solutions.

In addition to the ongoing sales activities, the Company initiates marketing activities through conferences, seminars and proactive contact with potential customers.

RDT and Asio have developed advanced marketing capabilities based on dedicated seminars in which customers are presented with the advanced technologies, the roadmap going forward, etc. In addition, in recent years, the companies have carried out a digital transformation process, and today, the companies are investing heavily in digital marketing while contacting customers directly through the various media channels.

The Company's expenses for marketing and distribution as mentioned above are in an immaterial amount.

7.4.5 Competition

Infrastructure solutions - there are many entities engaged in providing solutions for computer and communication infrastructure and in the marketing of computers and peripheral equipment. The activity in this field is not characterized by a dedicated or unique specialization, and therefore, the entry of potential competitors into this field is relatively easy. To the best of the Company's knowledge, in the field of solutions for computer and communication infrastructures, the Company's main competitors are One and Malam-Team, as well as a number of medium-small companies.

Computers and peripherals - the computer products in the PC field, marketed in Israel and around the world, are divided into three main types: [1] computer systems of large international companies with a lot of experience and reputation, such as: HP, Lenovo, Dell, etc. These systems are imported to Israel by local distributors and supplied to the customer as a complete system. The system provided to the customer bears the brand of the hardware manufacturer ("branded systems"). The authorized distributor provides customers with support and service backed up by the manufacturer; [2] Systems that are assembled in Israel and include components produced by various manufacturers around the world (mainly in the Far East); [3] Marketing storage and backup systems, mainly from EMC.

The Company's activity in the field of PCs, servers and storage systems is focused on the marketing of branded systems, mainly from the manufacturers Lenovo, Dell and HP. Also, the Company has knowledge in the field of disaster recovery (DRP), business continuity (BCP), backup and storage and virtualization, mainly on EMC, HP and VMWARE platforms. In Israel, there are a number of other distributors of branded systems of the system manufacturers that the Company is engaged in marketing, the main ones being, to the best of the Company's knowledge: One, Malam-Team, and Emet Computing, as well as a number of medium-small companies.

In the field of cloud solutions, the Company competes with companies that provide cloud services, the main ones being, to the best of the Company's knowledge: All Cloud, DoIT and the major cloud providers themselves in direct sales to customers: Microsoft, Google and Amazon Web Services.

The office mechanization market is characterized by relatively high entry barriers, including high capital investments in machines and the establishment of a logistics system and a service system. The Company's main competitors in this field are: Getter, Yazamco, Mafil, Copytech and Zilumatic.

The Company's activity in the field of the multimedia project is characterized by expertise and extensive professional knowledge that require a high level of integration with responsibility for end-to-end execution. The Company's main competitors in this field are: Hed Cinema, DM and Binat.

RDT deals in a variety of fields and does not have direct competitors in all fields together, but it has competitors in each and every field. For example, in the area of testings and measurements, the Company competes with companies such as Shanytech and Unit. In the field of automation, RDT competes with companies such as Siemens, ABB, Zik and the like.

The Company does not have an established assessment regarding its market share in any of the above areas.

7.4.6 Suppliers

A significant part of the Company's activity in this field is based on a number of suppliers whose products the Company serves as an authorized supplier. If the Company's contract with some of these suppliers is terminated, or if the terms of the contract with those suppliers substantially change, or if the demand for the said suppliers' products significantly decreases, or if additional distributors are appointed to those existing today, its revenues from this field of activity will be substantially impaired.

A significant part of Gestetnertec's activity is based on a number of suppliers whose products it serves as an authorized supplier such as: HP, Canon, Triumph-Adler, IDEAL. Among the suppliers of the Caliber subsidiary: Envisiontec and 3D Systems.

A significant part of RDT Vasio's activity is based on a number of suppliers whose products it serves as an authorized supplier such as: Fluke, Unitronics and TDK Lamda.

7.4.7 Inventory

In this field of activity, the Company is required to hold inventory in order to provide an immediate response to the unexpected needs of the customers, this, as part of the overall service provided to them. The amount of the inventory Company holds is determined according to a sales forecast prepared by the marketing and sales department of the various products and taking into account the delivery times of the equipment manufacturers. In some cases, the Company purchases products for inventory that the Company believes will not be difficult to sell to customers and that the manufacturer offers them at an opportunity price. For the most part, the life of the inventory does not exceed about three months.

For more details, see note 7 to the financial statements.

7.4.8 Intangible assets

See note 9 to the financial statements.

7.5 Training and implementation

For the rates of contribution (in percentages) of this field of activity to the Company's revenues and profit from ordinary activity in 2021 and 2022 see section 1.2.3 of the Report of the Board of Directors.

7.5.1 General

a. The Company's activity in this area mainly includes: [1] training and implementation services for end-users in organizations in which an IT system is installed or is about to be installed (either by the Company or by third parties); [2] Professional training and courses for high-tech personnel; [3] Vocational retraining in the fields of computing for individuals; [4] The provision of outstanding graduate services and accelerated training courses that include an intensive learning process using an instructor versus student method combined with practical exercises, while the outstanding graduates are used as a basis for professional services in an outsourcing format for customers ("John Bryce Talent"); [5] Training courses for the general public and organizations in the fields of management, service and sales (SOFT SKILLS), through the Hamil - Israeli Management Center ("Hamil"); and [6] Application of learning technologies and human resource management systems based on off-the-shelf products that the Company represents (such as Cornerstone) or based on open-source tools and other tools.

b. The Company also performs outsourcing activities of comprehensive training systems, such as the Policy Project - in which the subsidiary, John Bryce, has served as the training contractor since 2015 in the National Training Center project of the Israel Police, for the franchisee from the Shikun and Binui Group Ltd., including the provision of operational services, maintenance and training in Beit Shemesh, for the past 25 years, and outsourcing activity of the School for Training Workers in Welfare Services of the Ministry of Welfare. Also, in 2021, the Company won a tender to manage a customer school of the Standards Institution of Israel, which began operation in 2022.

c. Following the trend that developed during corona, John Bryce holds various online learning activities while transferring some of the studies and conferences to an online or hybrid online method of working (so that part of the class learns in the classroom and part from home). Today, John Bryce has advanced capabilities in this field that enable the transfer of most of its study frameworks based on advanced platforms for online learning and the use of the learning content in recorded lessons. The hybrid learning model developed by John Bryce has opened up many possibilities for growth while being able to deliver courses to participants from all over the country, and also, in the future, deliver courses abroad. In addition, John Bryce developed self-learning training systems in the technological field that are sold to private and corporate customers.

7.5.2 The services offered to the Group's customers in this field of activity

The training activity includes the operation of training centers in the field of hi-tech[30] and soft skills. Sometimes, some of the services are provided on the customers' websites.

In order to deepen and expand the range of courses offered by the Company, the Company has contracted with software companies for which it serves as a certified training center, including: Microsoft, Google, Amazon, Checkpoint and more. The Company has also entered into agreements with international certification companies, by virtue of which it is authorized to examine and certify examinees with various certifications in the computer field.

[30] As of the date of the Report, the Company operates three main training centers for high-trch studies – Jerusalem, Tel Aviv and Haifa

7.5.3 Customers

In this field of activity, the Company has business customers from all over the country from a variety of fields, as well as thousands of private customers. The field of training and implementation activity is not dependent on any customer or a limited number of customers. At the same time, if there is a change in the economic situation in the private market and there is a massive decrease in registration for the conversion courses, the decrease could adversely affect results of the field of activity.

For details regarding the order backlog, see section 8 below.

7.5.4 Sales and marketing

The marketing and sales activity in the field of training and assimilation is directed to the private sector in the field of conversion courses and high-tech training, based on the collection and generation of leads from Internet and mobile marketing activities and to the business sector by targeting existing customers (for the purposes of expanding the scope of activity with them), as well as contacting customers who have been marked as a marketing target. The marketing activity in this area is carried out by sales managers, Call Center and managers of the relevant fields.

In addition, the Company markets its services, mainly in the field of applied courses and in the field of professional training courses, through advertising at conferences and exhibitions, initiating meetings and seminars, publishing from time to time in the professional and daily press, advertising on the radio and advertising on billboards, producing advertising brochures and information sheets for customers, as well as advertising on the Internet (which constitutes currently the largest advertising channel).

The Company's expenses for marketing and sales purposes are in an amount that is immaterial to the Company.

7.5.5 Competition

The computer training market in Israel is subject to great volatility. In addition, the training and implementation market is characterized by multiple competitors and low barriers to entry, where admission into these areas does not involve substantial investments in infrastructure but rather in locating competent personnel relevant to training. The Company has a large number of competitors in the field of training activities in Israel. To the best of the Company's knowledge, the main ones are: the Technion's training center – external studies, IITC, HackerU, SQLink and Sela; in addition, small companies offering training courses including bootcamp courses, including studies in hybrid models of recorded lessons, online studies and classroom studies. In the field of training - Soft Skills, training courses in management of Lahav, the Faculty of Management at Tel Aviv University, the training center of Reichman University and organizational consultants. The Company does not have an established assessment regarding its market share in this area.

As part of dealing with the prevailing competitive conditions in this field of activity, the Company focuses its efforts in the field of marketing and sales, focusing on digital marketing and the targeting of sales managers for the various organizations. The Company also invests resources in maintaining its high professional status, and it is constantly working to expand the offer of courses and trainings in developing fields such as Cyber, Mobile, DATA, Cloud, ML, DevOps and more. According to the Company's assessment, its high position and its reputation in the market give it a relative advantage.

In addition, the Company anticipates competition in the future from international training and learning producers who deliver the training based on online studies in the web. The Company has worked and is taking steps to create similar local capabilities.

7.5.6 Intangible assets

See note 9 to the financial statements.

8. Backlog of orders

The whole company (on a consolidated basis)

Period of recognition of expected income	Backlog of orders as at December 31, 2022 (NIS in thousands)
First quarter 2023	1,170,473
Second quarter 2023	1,043,150
Third quarter 2023	1,056,585
Fourth quarter 2023	1,092,659
Total 2023	**4,362,867**
From 2024	1,413,586
Total	**5,776,453**

As of December 31, 2021, the Company's backlog of orders at NIS 5,398 thousand, of which NIS 4,524 thousand are for 2022 and the balance for 2023 and beyond.
The following are the balances of the backlog of orders according to area of activity:

Information technology solutions and services, consulting and management in Israel

Period of recognition of expected income	Backlog of orders as at December 31, 2022 (NIS in thousands)
First quarter 2023	623,807
Second quarter 2023	592,938
Third quarter 2023	610,757
Fourth quarter 2023	627,592
Total 2023	**2,455,093**
From 2024	744,889
Total	**3,199,982**

Information technology solutions and services in the USA

Period of recognition of expected income	Backlog of orders as at December 31, 2022 (NIS in thousands)
First quarter 2023	94,501
Second quarter 2023	91,819
Third quarter 2023	86,034
Fourth quarter 2023	84,841
Total 2023	**357,195**
From 2024	14,196
Total	**371,391**

Sales, marketing and support of software products (NIS in thousands)

Period of recognition of expected income	Backlog of orders as at December 31, 2022
First quarter 2023	51,136
Second quarter 2023	52,415
Third quarter 2023	57,049
Fourth quarter 2023	65,355
Total 2023	**225,956**
From 2024	28,372
Total	**254,328**

Cloud and computing infrastructures

Period of recognition of expected income	Backlog of orders as at December 31, 2022
First quarter 2023	331,513
Second quarter 2023	235,359
Third quarter 2023	235,752
Fourth quarter 2023	240,886
Total 2023	**1,043,510**
From 2024	557,879
Total	**1,601,389**

Training and implementation (NIS in thousands)

Period of recognition of expected income	Backlog of orders as at December 31, 2022
First quarter 2023	69,517
Second quarter 2023	70,620
Third quarter 2023	66,993
Fourth quarter 2023	73,985
Total 2023	**281,114**
From 2024	68,250
Total	**349,364**

The backlog of orders is based on signed agreements and/or orders and framework agreements. With regard to the framework agreements, there is no certainty that they will indeed be fully utilized. With regard to some of the orders that were taken into account as part of the above backlog of order, the customer has the right to terminate or cancel the contract. The Company does not have organized information regarding the orders that can be canceled. In the areas of activity in which the Company is engaged, it sees value in presenting disclosure regarding the orders, even if the customer has a right to terminate or cancel the contract. In order to be comparable, the data are presented in a similar format to previous years.

A large proportion of the orders that were taken into account as part of the backlog of orders for information technology solutions and services in Israel and the USA are for the provision of the services of employees and professional experts, for which the expected revenues are calculated as a multiple of the number of professionals required to perform the development services at the customer's and the average return to the Company for those personnel. The professional services provided by the Company to the customer are continuous in nature and can be stopped or reduced by the client at short notice. In most cases, in addition, the software services depend on seasonality (for more details, see section 9 below).

The data regarding the expected revenue recognition of the backlog of orders is only an estimate and is forward-looking information, as defined in the Securities Law based on past experience and the planned time-tables in accordance with the various engagements. Changes in these basic assumptions which led to the aforementioned estimate or to another effect on the estimates, or the realization of all or some of the risk factors in section 19 of the Report, may change the Company's assessment regarding the expected revenue recognition of the backlog of orders compared to the data presented above, including substantially more than expected.

9. Seasonality

The Company's revenues are directly impacted by the number of professionals providing the software services and the length of time the service is provided. Therefore, in quarters in which the number of working days is low compared to other quarters, there is a decrease in revenues from professional software services compared with quarters in which the number of working days is high (excluding other factors such as new engagements and termination of existing engagements).

Distribution of quarterly standard hours in Israel for the years 2022 and 2023 as of the date of the Report:

	Quarter IV	Quarter III	Quarter II	Quarter I
2022	24%	25.2%	24.6%	26.2%
2023	26.1%	24.6%	23.7%	25.6%

The fourth quarter in 2022 was the weakest in terms of seasonality and standard hours, due to the fact that most of the Jewish New Year holidays fell in the fourth quarter, while in the corresponding period in 2021, the holidays all fell in the third quarter. Also included in 2022, in the fourth quarter, is a general election day.

In 2023, seasonality is expected to be normal, such that the second and third quarters are affected by seasonality (mainly due to the holidays), while the second quarter is expected to be weaker in terms of standard hours.

In the United States, seasonality is not pronounced, but a decrease in business activity towards the end of the year and at the beginning of the year, due to the winter holidays is noticeable (though not prominently).

The distribution of the Company's sales by quarter in 2021 and 2022 (in percentages) is as folllows:

	Quarter IV	Quarter III	Quarter II	Quarter I
2022	26.6%	23.5%	24.4%	25.5%
2023	26.1%	24.3%	24.9%	24.7%

What is stated in this section 9 regarding the expected seasonality in 2023, is forward-looking information, as defined in the Securities Law, based on management's estimates and past experience and the data it currently has. The information may not materialize, in whole or in part, or materialize differently, including materially differently than expected, among other things, as a result of market competition and/or as a result of another or additional effect on seasonality that is not related to the dates of the holidays or that the effect of the holidays will not be as expected and/or as a result of the realization of any or some of the risk factors listed in section 19 of the Report.

10. Fixed assets, land and facilities

As of December 31, 2022, the Company leases offices throughout Israel (mainly in Herzliya, Tel-Aviv, Jerusalem, Modi'in, Tefen, and Lod) with a total area of approximately 65,000 square meters. The lease agreements are for different periods, when, in most cases, the Company is given options to extend the lease period. The Company aims to enter into lease agreements for lease periods of 3-4 years, while maintaining flexibility during the period of the lease. The Company also leases office space outside of Israel (in Bulgaria, Macedonia, Hungary, India, USA, England) with a total area of approx. -6,220 sq. mtrs.

The Company intends to continue working in a hybrid work model in the future as well, and as a result, continue to work to reduce the total areas it uses, while adapting to activities in a hybrid work model.

In January 2022, the Company entered into a lease agreement for a new 18-story building in Kfar Saba, with a total area of approx. 30,000 sq.mtrs. The lease agreement is for a period of 10 years in the amount of NIS 200 million (NIS 20 million per year), with two extension options of five years each. The building includes 15 office floors with an area of approx. 16,000 sq.mtrs and three floors of an underground parking lot with an area of approx. 14,000 sq.mtrs and is planned to be used by the Company's headquarters and its other branches that will be united under one complex. The move to the new building is expected to be carried out in the last quarter of 2023.

Details regarding fixed assets, real estate and facilities as of December 31, 2022 are as follows:

Type of property right	Area (sq. mtrs.)	Use
Rental (up to three years)	6,620	Development
	7,456	Management and sales
	1,000	Warehouse
	1,655	Training
	3,690	Call Center
Rental (more than three years)	16,000	Development
	5,973	Management and sales
	2,750	Warehouse
	7,352	Training
	12,504	Call Center
Rental (abroad)	6,220	Management, sales, development, Call Center

Most of the payments specified in the aforementioned rental agreements in Israel are in NIS, and are linked to the Consumer Price Index. The Company and affiliate companies gave guarantees for the payment of NIS in the amount of NIS 19.3 million.

For the consequences and effect of the implementation of the International Financial Reporting Standard IFRS 16, see note 13 to the financial statements.

11.Human capital

11.1 As of the date of the Report, the Company employs 11,200 personnel

The distribution of the Company's employees is as follows:

	Number of employees as of 31.12.22	Number of employees as of 31.12.21
Management and administration	260	245
Information technology solutions and services, consulting and management in Israel	8,543	8,316
Information technology solutions and services in the United States	652	550
Sales, marketing and support of software products	157	142
Cloud infrastructure and computing	806	672
Training and implementation	782	895
Total	**11,200**	**10,820**

The increase (net) in the number of employees was due to an increase in the volume of the Company's activity and acquisitions, alongside the impact of the sale of the majority of holdings in Infinity, which as of December 31, 2021, included approximately 400 employees.

11.2 Hybrid work policy

The Company intends to continue working in a hybrid model (a combination of work from home and from the office) that began during corona on a regular basis, while reducing the amount of office space it uses and saving on operational costs.

11.3 Although, in 2022, there was a moderation in the trend of the lack of technological human capital following the slowdown in the high-tech sector, which makes it difficult both to recruit suitable candidates and to retain quality professional personnel - see section 6.1.1 (c) above.

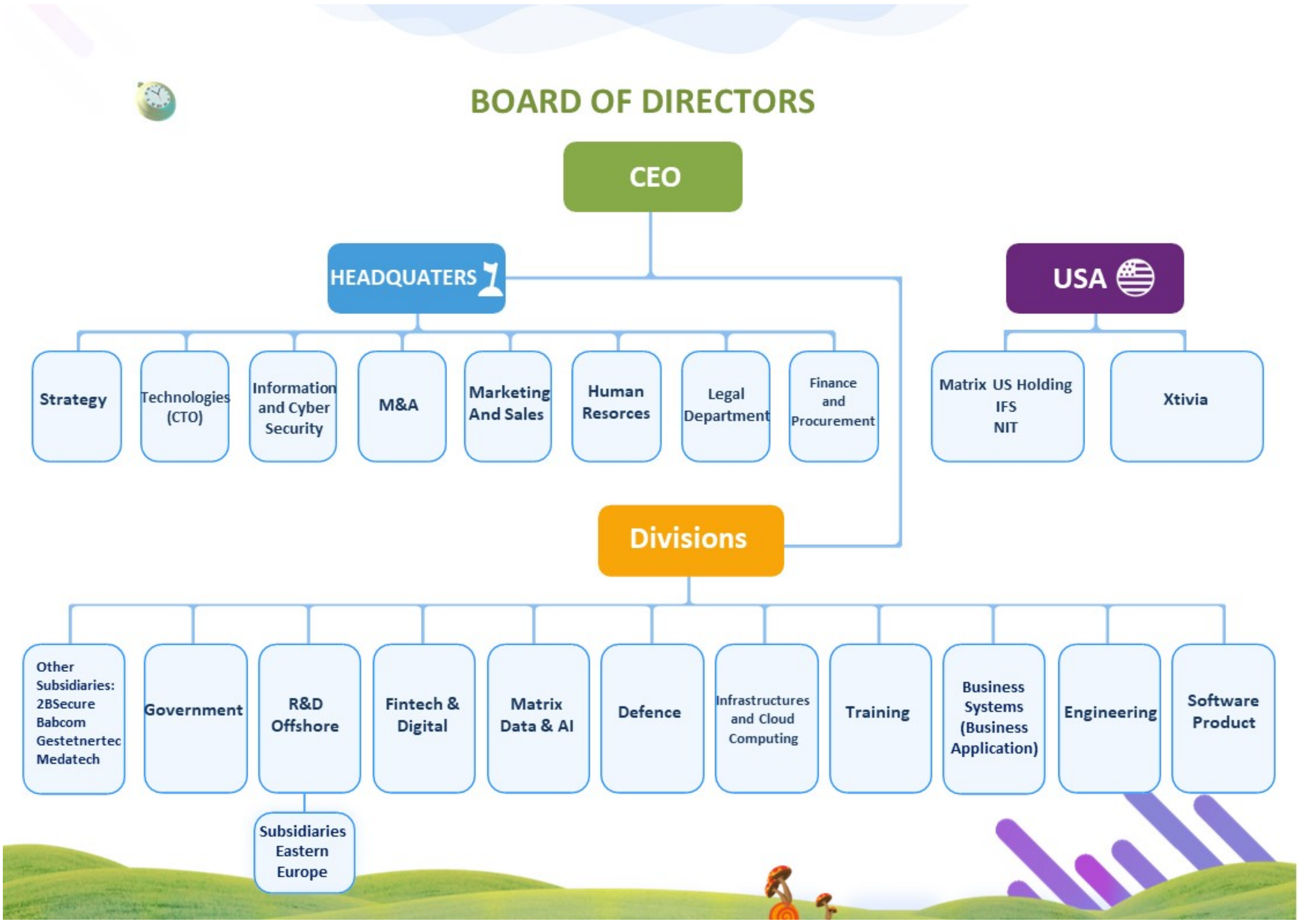
The Company faces the challenges in recruitment and retention of technological personnel, inter alia, through the development of the field of training, through the subsidiaries John Bryce and "John Bryce Talent" (see section 7.5 above), through the "One friend brings another" promotions for the Company's employees and a great deal of investment in recruiting and retaining employees.

11.4. Recruitment, retention and employee connectedness

As part of the challenges of the shortage of human capital, the Company invests a lot of effort and resources in locating and employing suitable candidates. In order to support these efforts and improve the recruitment system, the recruitment teams have grown and the relevant departments currently number many dozens of recruiters. The Company invests efforts in training the recruitment teams, both in locating and training at the time of admission to the position and on a constant basis to improve performance and deal with the challenges of the time. Internal recruitment processes have also been implemented which will improve and shorten the recruitment processes. In addition, the investment in technological infrastructures, improving information systems and expanding the use of advanced sourcing tools, was extended.

The hybrid work challenges the world of work, inter alia, in the field of employees' connection to the organization. The Company invests considerable efforts in the development of managers in matters of creating and maintaining employee connectedness, both through personal tools and through expanding the organizational toolbox to deal with the issue of connectedness, such as expanding the enrichment, training and well-being programs for employees and financial solutions and benefits for relevant groups.

11.5. Below is a description of the Company's organizational structure:



Employment agreements

The Company's employees are employed according to personal employment contracts.

The employees engaged in marketing and sales are entitled to bonuses based on their contribution and sales. In addition, the Company pays some employees bonuses based on unique personal goals that encourage creativity and organizational excellence.

For obligations regarding employee-employer relations, see Note 14 to the financial statements.

11.6. Remuneration policy

On April 3, 2022, the Company adopted an updated remuneration policy for the Company's officers and adjusted the CEO ceiling accordingly. For further details regarding the Company's updated remuneration policy, see Immediate Report published by the Company on April 3, 2022 (ref: 2022-01-042259).

For further details regarding the remuneration for officers, see Regulation 21 of Part D of the Report (additional details about the corporation). The Company grants bonuses to its senior managers in accordance with the provisions of the Company's remuneration policy.

11.7. For details regarding share-based payments, see note 18 to the financial statements.

11.8. On December 28, 2022, the Company approved the renewal of the contract with the Company's CEO, Mr. Moti Gutman, and the updating of the terms of his tenure and employment, including the capital remuneration mechanism, for a period of 5 years, commencing January 1, 2023 until December 31, 2027. For further details, see Immediate Reports published by the Company on November 10, 2022 (ref. 2022-01-135274) and on December 29, 2022 (ref. 2022-01-157564). See also Regulation 21 of Chapter D of the Report (Further details about the corporation).

11.9. As of the date of the report, the Company is not dependent on particular employees.

11.10. The Equal Pay for Female and Male Employees Law - The Company advocates equal opportunities, a policy of gender equality and works to promote women and equality in the employment conditions of its employees. In 2022, the Company published a report on its website, as required by law, for 2021. 56% of the Company's employees are women; the Company will continue to work to promote women, reduce gaps, equality and diversity.

11.11. The Company implements a program to encourage the employment of employees with disabilities.

In this framework, the Company has appointed a person in charge of hiring employees with disabilities who is also responsible for the implementation of the work plan.

11.12. Regulation

The Company has internal enforcement programs in the areas of securities laws and economic competition laws and a compliance program and procedures in the field of privacy protection and database security. For further details, see section 15 below.

The Company has a code of ethics according to which the Company conducts its business, while maintaining the principles of the law, morality and business ethics, including equal opportunities and the prevention of discrimination and harassment, prevention of conflict of interest, prevention of bribery and corruption, application of principles of corporate governance and the prohibition of exploitation of opportunities. In addition, the company implemented a comprehensive enforcement plan to prevent bribery and corruption, within which the Company has adopted, among other things, a policy of zero tolerance towards bribery and corruption. The Company maintains procedures in the field of labor law, including for the prevention of sexual harassment and the creation of a safe work environment and a preventive organizational culture. The Company holds regular training courses and lectures for employees in these areas, and operates appropriate learning programs.

11.13. ESG

The Company is in the process of formulating an ESG (Environmental Social Governance) policy, in preparation for publishing a corporate responsibility report. As part of the process, the Company has examined the significant issues relevant to its activity, and being a company whose main assets are its human resources, the social field in ESG is of significant and major importance (such as: occupational diversity and equal opportunities, employee welfare and rights and recruitment and retention of employees and human rights). . The Company regularly monitors developments and trends in these matters, including the development of regulations in the field and acts accordingly. The Company has enshrined on its banner maintaining the values of transparency and proper corporate governance, gender diversity and preserving workers' rights, as part of its pillars. As a result, the Company invests considerable resources in the realization of the policy, in the implementation of related activities, in recognition of the importance and planning of additional activities in these areas.

11.14. The Company considers the human resource as one of the most important factors for its success.

The Company invests many resources in employee development and training processes, among other things, to retain quality personnel and their abilities. The scope of the aforementioned internal trainings is not essential.

The Company is certified for ISO 9001 (project management) and ISO 9000.3 (software houses), which include unique procedures for recruiting, evaluating and developing human resources.

Once, every few months, (and at least once a year), a survey of training requirements is carried out, which is intended to identify gaps in knowledge that are necessary for the Company's employees in order to perform the tasks for which they are responsible as part of their duties. Training courses for employees are also being developed according to with the requirements of the market and technological developments.

In addition, after the admission of each new employee, an interactive process of evaluating and developing the employee's qualifications and skills is conducted, according to the position and the personal development path defined for him/her.

The Company operates in several learning channels with the aim of bringing about the professional development and improvement of the performance of its employees, including: a course of professional development courses, technological enrichment courses in various professional fields, "Coffee and Technology" (lectures by the best lecturers on hot topics in the industry), cross-company professional forums, professional partners (leading software providers), public courses (mostly through John Bryce/Training Division), executive development programs and management workshops and online courses - this, in addition to training in the areas of connectedness and well-being, as mentioned above.

The Company also operates a corporate application, which includes, inter alia, the presentation of all services and benefits, updates, regulations and procedures, tutorials, etc.

12. Working capital

12.1. The following sets forth the composition of working capital for December 31, 2021 and 2022 on a consolidated basis in thousands of NIS:

	2022	2021	Change
Current assets	2,579,491	2,139,581	439,910
Current liabilities	(2,125,802)	(1,877,085)	248,717
Excess current assets over current liabilities	453,689	262,496	191,193
Working capital as a percentage of sales	9.7%	6%	

* Working capital as a percentage of sales is computed on an annual basis

For explanations regarding the main changes in working capital, see section 1.3 of the Report of the Board of Directors.

12.2. The corporation's substantial investment activities in **investee** companies and investments in other activities.

For details regarding the holding in Infinity, in which the company owns 4.9%, and the effect of the sale of the majority of the Company's holding, see note 3e to the financial statements.

12.3. Inventory holding policy

See section 7.4.7 above and note 7 to the financial statements.

12.4. Customer balance and credit days

See note 5 to the financial statements.

12.5. Average credit days (in days)

	2022	2021
Trade receivables	109	102
Trade payables	51	47

13. Financing

13.1. The Company finances its current activity from cash flow from operating activities, from the shareholders' equity , from taking credit from financial entities and debentures issued to the public.

13.2. The financing of the activity is done centrally for all areas of activity. The acquisitions of companies were financed with capital from own sources and medium and long-term credit.
For details about long-term credit, see note 15 to the financial statements.

13.3. On September 14, 2022, the Company published a Shelf Offering Report (ref.: 2022-01-117502) in which the Company made an initial public offering for a total of NIS 295,249 thousand par value of Series B debentures (Series B) of the Company. On November 29, 2022, the Company expanded the debenture series by NIS 180,366 thousand par value of the Company's Series B debentures. For further details, see Appendix A to the Report of the Board of Directors and note 21 to the financial statements.

13.4. For details about credit and short-term loans, see Note 11 to the financial statements.

13.5. Rating
The Company has an issuer rating of Aa3 with a stable rating outlook from December 4, 2022.

The Company has a non-marketable Commercial securities ("NAAM") rating of None/NOO P-1.il from December 4, 2022 and a stable Aa3 il rating for Series B debenturesfrom December 4, 2022.

13.6. As of December 31, 2022 and the date of approval of the Report, the Company has credit facilities (unsigned) totaling approximately NIS 1,472 million.
Below are details regarding the Company's credit facilities (in millions of NIS):

	Facility	Utilized as at 31.12.22	Utilzed prior to the date of approving the Report
Credit facilities from financial institutions	1,472	544.7	517.1

The said credit facilities are not signed and were given for a period of one year.

There is no change in the terms and conditions as of the date of the report.

Credit utilization does not include guarantees (mainly performance guarantees) given to customers in the amount of NIS 139.4 million and rent payment guarantees in the amount of NIS 19.3 million.

The interest rates are determined when the loans are actually taken, in negotiations between the Company and the financial institution.

13.7. The Company issued non-marketable commercial securities in the amount of NIS 200 million.

The interest rate is for an optional cumulative period of up to 5 years. The NAAM includes a commitment to redeem at the investor's request with advance notice of at least 7 business days advance. The NAAM carries a variable interest rate at the Bank of Israel variable interest rate plus 0.5%.

For more details, see the Company's Immediate Reports from December 13, 2021 (ref.: 2021-01-108898) and from December 15, 2021 (ref. 2021-01-109981).

13.8. Financial covenants**:**

As part of the Company's commitments in taking financing vis-à-vis the financial institutions and the debenture holders, the Company has assumed certain obligations and financial covenants. As of the date of the financial statements and the date of publication of the report, the Company meets all the aforementioned financial covenants

Details regarding financial covenants vis-a-vis financial institutions:

	Financial covenants	31.12.22
Percentage of Credit from banking corporations to Balance sheet (net of cash)	Must not exceed 40%	9.6%
Ratio of Debts of the Group (net of cash) to EBITDA	Must not exceed 3.5	0.74
Shareholders' equity (net of minority interest)	Not less than NIS 275 million	NIS 916 million
Balance of Cash and short-term investments	Not less than NIS 50 million	NIS 839 million

Details regarding financial covenants in connection with Series B debentures:

See Appendix A to the Report of the Board of Directors

In addition, the Company has undertaken to hold a balance of liquid assets and available credit facilities for the benefit of the NAAM, in an amount not less than NIS 300 million (of which, at least NIS 200 million in cash).

14. Taxation

For details, see note 15 to the financial statements.

15. Limitations and supervision of Matrix activity

15.1. Standardization

Most of the Group's activity is carried out according to work procedures which have been tested by the Israeli Standards Institute with reference to the requirements of the ISO-9001:2015 standard. The work procedures apply to professional areas of activity as well as to administrative areas of activity. The Standards Institute has been performing quality checks on the Matrix Group on an ongoing basis for many years and the Group has been found suitable to hold the ISO9001:2015 standard, both due to its compliance with the requirements of the Standard (through relevant work procedures and/or work instructions), and due to its ability to provide the customer with a product that meets his requirements and applicable regulatory requirements, while effectively implementing the quality management system to the satisfaction of its customers, implementing processes for continuous improvement while focusing on the customer.

In addition, Matrix is certified by the Israeli Standards Institute in two Data Security Management Standards: ISO 27001 - Standard for data security management and ISO 277799 - Standard for data security management in the area of healthcare.

ISO 27001 is a standard that defines the basic principles for establishing and maintaining an idata security management system suitable for an organization. The Standard indicates that the organization has taken the necessary steps to properly protect the organizational information.

ISO 277799 is a standard based on strict requirements in the field of data security that focuses on data security in healthcare organizations or their service providers. The Standard establishes principles and guidelines for medical organizations and their suppliers regarding the security of medical information in the organization and its systems. The application of the standard indicates that the manner in which the medical information is handled is done at the required high level, while maintaining the confidentiality, integrity and availability of the medical information in the systems and services provided to healthcare entities.

Compliance with these international standards raises the level of information security in the Company, inter alia, in the aspects of implementing secure development processes, secure management of organizational information systems and infrastructures, physical security, raising employee awareness, including information security in the Company's communications and services it provides, and as an added value, it also allows the Company to compete in tenders where these security standards are a threshold condition, including many government tenders.

15.2. A supplier recognized by the Ministry of Defense

Some of the Group companies are recognized suppliers to the Ministry of Defense.

15.3. Privacy protection

The Company is subject to the relevant provisions of privacy protection laws, including the Privacy Protection Law, 1981, the Privacy Protection (Information Security) Regulations, 2017, and for some of the Company's subsidiaries, the General Data Protection Regulation (GDPR) regulations (hereinafter: "the Privacy Protection Laws"). The Company operates on a continuing basis in order to meet the requirements of the Privacy Protection Laws. Among other things, the Company has appointed a Privacy Protection Officer, has mapped and classified the databases and data processing processes, updated security practices and privacy policies and implemented, the provisions of the regulations in contracting with third parties who have access to the Company's databases, Data Processing Agreements have been signed with suppliers and customers, and the provisions have been incorporated into the employment agreements with the Company's employees. During the year, many actions were taken to preserve privacy protection in accordance with procedures and laws, including updates to the databases, deleting excess data, examining and updating security procedures, registration of new databases, conducting risk surveys, delivering training to those with access privileges to the database and conducting periodic audits.

15.4. The Company is subject to various regulatory restrictions, primarily in coprporate law, and because it is a "reporting corporation". The Company has adopted an internal enforcement program which includes internal work procedures in the area of securities, which is intended to implement compliance norms with corporate law and securities law by the Group and to reduce the Group's exposure, its managers and employees to administrative enforcement procedures. The enforcement plan includes internal procedures that deal, inter alia, with the Company's reporting obligations, locating and approving transactions with interested parties, including the classification of negligible and non-exceptional transactions, work procedures for the Audit Committee and the Committee for Examining the Financial Statements, prohibition of the use of inside information, communication with the Authority and market factors, as well as dealing with the complaints of the Group's employees in connection with deficiencies and protection for 'whistleblower' employees.

15.5. The Company is subject to the restrictions of Economic Competition Laws, especially with regard to the mergers and acquisitions of the companies it executes, and with regard to restrctive arrangements (collaborations, tenders and joint ventures). The Company adheres strictly to the provisions of the Competition Laws and, for many years, has been implementing an internal antitrust enforcement program and an enforcement procedure in competition matters (updated from time to time according to need and to the law), which include, inter alia, the appointment of aan officer in charge of the internal enforcement of the Economic Competition Law, the appointment of an Internal Enforcement Committee, investment in implementation, training and lectures in the field of competition law, including through tutorials and periodic audits.

See note 16b to the financial statements.

16. Legal proceedings

See note 16 b to the financial statements

17. Goals and business strategy

In general, the Company works to expand its activities through a combination of organic growth and acquisitions of activities and companies, and this on three main axes:

- The first axis is continued growth in Israel in the Company's core business areas, based both on organic growth and local purchases.
- The second axis is the expansion of the Company's activities abroad, particularly in the USA, which the Company sees as a strategic target market, also here based on organic growth of the Company's subsidiaries in the USA, including through global projects, and on additional purchases and "exporting" the Company's capabilities from Israel to other markets in the world and, in particular, to the USA.
- The third axis is expansion into tangential areas of activity that have significant business potential for continued growth in the long term. In recent years, the Company has been taking steps to expand its activities in the fields of Management consulting and engineering and operational consulting, including the supervision of complex engineering projects and, in particular, infrastructure projects, mainly in the field of transportation. The Company intends to continue to grow in these areas as well as to examine the expansion of its activities to other tangential areas of activity. Naturally, this axis of development is mainly based on acquisitions.

The Company is working to expand its activities through synergistic acquisitions, as an essential part of its long-term growth strategy. The Company's leading position, its financial strength and financial resources, as well as the reputation and experience the Company has in the field of mergers and acquisitions, may continue to create opportunities for the Company to acquire additional companies, both those that operate in the Company's core areas and complement the solutions offered by it, and those that operate in complementary areas, tangential to the areas the Company's activities, allowing the Company to expand its areas of activity and the target markets available to it, all at economic prices (including taking into account the expected cost of financing in the reality of rising interest rates), vis-à-vis the potential inherent in every purchase opportunity, thus expanding the range of services offered by the Company and its customer base and the Company's profitability over time. The Company intends to continue to examine options for expanding its activities in its core areas and in areas tangential to its traditional areas of activity through additional acquisitions.

The Company is also taking steps to expand its activities to additional areas of activity through internal initiative into new areas of activity and the expansion of its existing core activity based on the needs of the Company's customers and on the basis of constant monitoring of the new technologies in the market.

The Company constantly and closely monitors the innovative technological developments around the world, which are occurring at an accelerated pace, through a continuous and close relationship with the top global technology analyst companies and with the largest software manufacturers in the world, and also learns about technological and applied trends from its largest customers abroad, while focusing on the more essential technologies with the most significant economic potential, as a basis for continued business expansion. The implementation of this strategy resulted in a significant expansion of the Company's scope of activity in the areas of essential innovative technologies, and in particular in the areas of: Digital Transformation, Data Science and Analytics, Cloud, Cyber and Core Applications (CRM, ERP...) ("D2 C3"). As a result of the implementation of this strategy, the Company is positioned as a market leader in most of the aforementioned fields in Israel, while the volume of its revenues from each of them is increasing every year and while the volume of recurring revenues is increasing every year. In this spirit, the Company continues to take steps to acquire the appropriate knowledge in additional innovative technologies in the Company (which, in some cases, is even reflected in the establishment of new Centers of Excellence, in accordance with technological developments around the world), while, at the same time, building business relationships with the world's leading suppliers in those innovative fields.

The Company gives emphasis and importance to recurring revenues from its customers in all areas of its activity and accordingly, also implements dedicated incentive programs for the marketing and sales teams in the Company.

The Company is taking steps to expand its activity in the medical field while leveraging the digital transformation in health, and the acceleration created in the field under the impact of the corona crisis. Among other things, the Company is working to expand its activities in the fields of AI and Data Analytics and in the field of personalized medicine, and to deepen its activities in the transition from the public health sector to the cloud. The Company sees the need and opportunity for cyber protection with the expansion of telemedicine activity in Israel and the USA.

The Company is working to continue expanding the scope of its activities in the field of projects and project management, and in particular, large and complex integration projects, in which the Company can express the wide variety of products and services offered by the Company, all under one roof.

The Company is taking steps to leverage the range of its capabilities, services and solutions offered by it, as a basis for expanding the scope of its activities with clients in the high-tech and technology sectors and with start-up companies, inter alia, in the fields of security, health and retail. The Company is considering additional marketing and professional moves to focus on these sectors.

At the individual level, the goals and business strategy in each of the Company's areas of activity are:

17.1. In the field of Information technology solutions and services, consulting and management in Israel:

The Company intends to maintain its leading position in the field of information technology solutions and services, consulting and management and to continue to be the leading entity in Israel in the field of IT services, as has been shown by all the analysts' ratings in the local market for many years.

The Company is constantly working to prepare for providing solutions in new fields using AI technological solutions.

The Company intends to continue to develop the range of services for its customers in the field of Digital transformation solutions, Cloud services, Data services, AI, IOT, Cyber and services, thus strengthening its leading position in these areas, which have gained significant momentum in recent years and, in the Company's estimation, this trend will continue in future years.

The Company intends to continue to be a leading entity in Israel in the field of modernizing core systems, while mobilizing its advanced capabilities in the field of core systems, on the one hand, and innovative technologies, on the other.

The Company intends to continue to expand its activity in the fields of consulting and management, multidisciplinary engineering consulting, consulting in the supply chain and in the logistical-operational field, and in the field of engineering management and supervision services of mega projects in the fields of infrastructure, especially in the transportation sector, which are tangential to its traditional fields of activity, whether through organic growth or through additional acquisitions. The Company also intends to continue and examine the expansion of its activity into additional tangential areas of activity through acquisitions.

The Company intends to continue to lead and offer its customers economic models for managed services (in this regard, see section 6.1.1 d above), both in the field of software development services and in the field of software testing services, either at the customer's premisers or elsewhere, including in the combination of Offshore and Nearshore services, for example: Talpiot and Matrix R&D services and Offshore (see section 7.1.1 b. above) and even to expand its range of solutions in this area, as well as to offer unique and flexible business models that match the its customers' requirements, through models based on Service Level Agreements (SLA), as well as the development of new models for the provision of the said services.

In view of the ongoing shortage of technological manpower in Israel, the Company intends to continue to develop its technological training business, including unique accelerated training courses, through its subsidiary, "John Bryce", as well as to promote the delivery of outstanding graduate services to the Company's customers in the Company's training courses, as part of the "John Bryce Talent" activity (see section 7.5.1 a. above).

17.2. In the field of Information technology solutions and services in the USA:

The Company is studying opportunities to expand its operations in the United States, which have been defined by the Company's management as a target market, in the core areas, in general, and in the areas of GRC (Governance, Risk & Compliance) and financial risk management and in the area of services for the health market, in particular, both through the organic expansion of existing activity and through augmenting the services for additional areas in which the Company is engaged (e.g Information security and BI) and through locating suitable target companies for acquisition.

The Company intends to expand its range of services in the USA, through its subsidiary, Matrix Holding US, using personnel from across the Matrix Group, based on the integration of a local presence in the USA of sales and project managers, with a high and rapid ability to perform in many required areas through the advanced professional resources of the Company in Israel.

The Company intends to act to leverage its arms in the USA so that they will serve as a platform for Israeli companies that wish to operate in the USA, both by providing services to these companies and by selling their products to the Company's current clientele, and in particular in the federal-government sector in the USA.

17.3. In the field of Sales, marketing and support for software products:

The Company continues to work in order to increase the scope of its sales and increase its activity in this area with solutions that, in the Company's opinion, will deepen their penetration in the market, for example, expanding the range of solutions sold by the Company in the areas of Cloud, Cyber, Digital and Automation Solutions, AI, Open Code, Low Code, Monitoring and Control Systems and Solutions, etc.

The Company intends to pool resources to create accessible solutions for software products in the Cloud, with an emphasis on hybrid products and solutions for managing the migration to the Cloud.

The Company plans to take steps to expand its basket of products and create a wide array of products through engagements to receive representative offices of additional software products, in areas that it identifies, through the Company's constant monitoring of technological trends around the world, as areas of future demand. The Company will operate with the goal of expanding and deepening advanced and extensive support services.

At the same time as the Company's ongoing activity to find new software solutions and software suppliers, the Company intends to continue to maintain the excellent working relationship with its existing software suppliers, most of them, leading international giants in their field.

The Company intends to continue to encourage a transition to subscription-based engagements also at the expense of perpetual model engagements, to expand the Company's Recurring Revenues base.

17.4. In the field of Cloud infrastructure and computing

The Company intends to continue positioning itself as the leading body in the field of Cloud Services in Israel, while continuing to grow and expand its activities in this field, through the CloudZone unit. The Company intends to continue taking steps to expand the range of solutions and services it offers on the one hand, and the business collaborations with the leading suppliers in the market in this field on the other hand, in Israel and even abroad. The Company intends to continue expanding its activities in this field abroad. (For more details about the CloudZone see section 7.4.2 above.)

The Company intends to continue to be a leading partner of its customers in further equipping and upgrading their systems, in a manner derived from the development and purchase of new information systems or the expansion of the use of existing systems, to expand its activities in the field of Active/passive communication and telephony with an emphasis on advanced systems of IP switchboards from Cisco, wireless and secure, and to operate for growth in the field of Multimedia systems in cooperation with the business divisions and the Group's customers.

The Company intends to continue and expand its activities in the field of comprehensive solutions in the area of Printing services, document production and knowledge management, as well as in the field of 3D-printing, through its subsidiary, Gestetnertec.

The Company intends to continue and expand its activities in the areas of control and automation, test equipment, communication and calibration services, through the subsidiaries RDT and Asio, which were acquired by the Company in 2022.

The Company continues to work to increase the relative share of the service system, the provision of related professional services and the outsourcing of the total revenues of the Company's Cloud infrastructure and computing sector.

17.5. In the field of Training and implementation:

The Company intends to continue to provide comprehensive solutions for the training requirements and implementation of IT systems of organizations, while incorporating remote work methods as necessary. The Company also aims to lead the market in learning methods that use technology in order to produce a hybrid learning model, based on the insights and experience gained during corona, and the realization of the great potential in using technology as a learning platform to increase business in Israel and abroad in the fields of learning, while leveraging the advantages that the Company has as a leading company with a wide customer base in the field, and proven accumulated experience in this field over the years. On this basis, the Company intends to deepen and expand long-term strategic partnerships with leading companies and organizations in this field.

The Company also intends to deepen the synergy with the other areas of activity in the Company, including the field of Online Training and new technological learning areas.

The Company plans to continue to offer additional and new types of training courses in the field of professional retraining in the fields of computing, which will allow the Company to expand its activities in the field of professional retraining, and to expand its activities within the framework of dedicated manpower training and specializing in advanced technologies according to the targeted requirements of its customers and to increase the outsourcing services based on the personnel that it trains under the brand, "John Bryce Talent".

What is stated in this section 17 regarding the goals and business strategy of the Company is forward-looking information, as defined in the Securities Law, and is in terms of a forecast and target, based on the management's expectations and assessments and work plans. The above may not materialize, in whole or in part, or may materialize in a different way, including materially differently than expected, inter alia, in the event of a slowdown in the IT field or the entire market and/or as a result of the materialization of all or some of the risk factors listed in section 19 of the Report.

18. Financial information with regard to geographic areas

See note 24a to the financial statements to the Report of the Board of Directors (geographical information).

19. Discussion of risk factors

The Company's activity is characterized by the following risk factors:

Macro risk factors

19.1. The economic/political/security situation in Israel

Most of the Company's activity is in Israel, and most of the Company's revenues are generated in Israel. An economic slowdown and uncertainty in the economy, whether due to a serious security event, political uncertainty (see also section 6.2.1 b above in this regard), due to an economic recession or any other factor, including due to an increase in inflation and interest rates, may lead to a decrease in demand and cuts in volumes IT procurement activities and budgets and the reduction of expenses by some customers, including the layoff of employees, recruitment of the Company's employees by its customers, price reductions, reduction of demand for software and hardware products and other cuts, which may lead to damage to the Company's business results. Also, a recession or economic damage to the economy may affect the ability of some of the Company's customers to pay their debts to the Company and cause customers to enter difficulties or collapse, and, as a result, lead to damage to the Company's cash flow, to an increase in the scope of its bad debts and damage to its business results. In addition, to the extent that there will be a deterioration in the security situation in Israel, which may lead to the shutdown of economic activity, this will lead to direct damage to the Company's income and business results.

19.2. An increase in the interest rate

In 2022, the global trend of increasing price levels in Israel and abroad intensified greatly. In an attempt to curb inflation, almost all central banks continued to raise interest rates. To the extent that the increasing trend in interest rates in the economy will continue to be high and prolonged, it is likely to have an adverse impact on the operating results through an increase in financing costs. In addition, to the extent that these will subsequently lead to a recession and economic slowdown in Israel (and/or in the US), these are liable to lead to a reduction in demand and even damage to some of the Company's customers and, as a result, damage to the Company's operating results, as set forth in section 1.1.2 of the Report of the Board of Directors.
For details regarding financial risks, see note 20 to the financial statements.

19.3. The political and economic situation in the USA

The IT market in the United States is directly affected by the economic and political developments in the US economy. Any economic uncertainty and/or damage to the US economy, as well as political uncertainty in the United States, can affect the demand in the IT market in the US and may result in damage to the Company's business results in the US. Also, a negative economic trend in the US is liable to lead to impairment in the performance of the Company's major financial clients (as well as other clients) in the United States. As a result, the Company's business in the US, which accounts for a significant part of its profits in recent years, may be adversely affected, as well as lead to decrease in the Company's cash flow and increase the scope of its bad debts from customers in the United States.

19.4. Change in the exchange rate of the dollar

The change in the exchange rate of the dollar affects the profit in the Software solutions and services sector in the US, and some of the activities in the Sales, marketing and support sector for software products and the Cloud and computing infrastructure sector, and also impacts adjustments from the translation of the financial statements of the Company's subsidiaries in the US (translation differences). In general, an increase in the dollar exchange rate has a positive effect on the Company's results and vice versa. The Company periodically examines the implementation of hedges for foreign currency exposures.
In this regard, see also note 2 to the financial statements.

Sector risk factors

19.5. Human capital

The Company encounters challenges in all matters related to the location, recruitment and retention of quality and professional manpower, in Israel as well as in the US, as a result of the global shortage of technological manpower. The main cause of the shortage is the continuous increase in demand for experienced workers in the technological field (particularly in the new technologies, which are an important part of the Company's growth engines), which is not met by a similar increase in the supply of technological professionals and competition for quality candidates and employees. The continued shortage of employees in the technological field causes difficulties in locating required employees for the Company, while increasing the Company's costs in locating and hiring employees to meet market demands, as well as in retaining existing employees. As a result, the Company is required for higher salary costs and a high investment in different tools and unique solutions, both for recruiting new employees and for retaining existing employees.

These trends may lead to an increase in the Company's labor costs, loss of employees and difficulties in recruiting new employees. All of these may lead to an erosion of the Company's profitability and damage to its ability to provide its services to its customers and its growth rate.

In addition, the field of work is characterized by multiple regulations and frequent regulatory changes (including changes in the law, expansion orders, court rulings, etc.). The implementation of additional regulatory changes, if any, that may apply to the Company, may expose the Company to significant additional costs, and may even lead to damage to the Company's conmmitments with its customers and exposure to claims and lawsuits on the part of the Company's employees, which may lead to impairment in the Company's profits and adversely affect its business results.

19.6. Mergers and acquisitions

An important part of the Company's business strategy is expansion through mergers and acquisitions (see section 17 above). The Company may, from time to time, compete for purchase and investment opportunities with established companies, whose financial means at their disposal exceed the Company's own means. This risk has increased in light of the growing trend in the scope of investments by Private Equity funds (which benefit from financial resources in large volumes) in IT companies. Furthermore, the global trend of the increase in interest rates in the economy increases the effective cost of the purchases, in light of the increase in the financing costs associated with them. In addition, there is no certainty that the Company will be able to locate potential purchase or investment opportunities, in Israel or abroad that are suitable for its goals and at appropriate prices in its view. Also, mergers of acquired companies are complex and may fail. In such cases, the Company's ability to expand and grow may be impaired, and It may even incur losses due to unsuccessful acquisitions.

19.7. Competition

The fierce competition in most of the Company's areas of activity, as well as the low barriers to entry in some of the Company's areas of activity, can lead to a reduction in the scope of the Company's commitments and/or to lower prices which may lead to an erosion of the Company's profits.

Unique risk factors

19.8. Cyber and information security

The Company's activity is based on information systems and digital information of various types, including that of employees, suppliers and customers of the Company (and their customers). In recent years, there has been a significant increase in the frequency and severity of cyber incidents (including cyber crime), particularly against Israeli entities and companies. This trend is expected to continue in the future and may even worsen, despite all the defense mechanisms employed against it. Cyber incidents may lead to unauthorized access, unauthorized exposure, abuse, disruption, deletion or modification of the information of the Company and its customers, ransom attacks, and may disrupt current activity, damage the computing services, significantly slow them down, and even disable the Company's information systems and development projects.

In the event of damage to the Company (or to the Company's customers or suppliers) as a result of such cyber attacks, the Company may suffer negative consequences, including disruption of the activity of the Company and/or of customers to whom the Company provides services, disruption of the operation of the Company's information systems or their shutdown, impairment to development projects being performed by the Company, theft of information of the Company's and/or of its customers', information leakage, damage to the reputation affecting customer trust in the Company and exposure to lawsuits and regulatory procedures, as well as compensation payments and/or fines. All of these asre liable to lead to various direct and indirect damages to the Company and adversely affect the Company's business results.

In order to protect its information technology system and minimize information security risks, with the increase in the level of risk and intrusion attempts, the Company invests considerable efforts and substantial resources (organizational, financial, professional and computing) in the continuous strengthening of the Company's defenses against these risks, including the equipping of appropriate technological systems, strong identification and strict remote access controls, activation and upgrade of an Event management system and Business continuity plan, conducting evaluation practices for cyber incidents, expanding and operating an internal information security unit, operating a 24/7 SOC hotline, meeting strict information security standards, engaging with experts in the field, updating and monitoring the Company's policies and procedures on a regular basis, training and raising employee awareness, as well as the purchase of designated insurance for cyber risks (Cyber Liability Insurance), which includes claims by third parties for cyber events, ransom and extortion events, loss of profits as a result of cyber incidents, coverage for the hardware of the computer systems following a cyber incident, expenses of the incident, such as: Information security teams, legal, multimedia liability, third-party and privacy regulation.

In addition, the Company is taking steps to comply with the regulatory rules that apply to it with regard to Information security, and among other things, it regularly performs internal and external information security audits, including intrusion tests and periodic risk surveys and database controls, and conducts exercises and training to raise employee awareness of information security and privacy. In addition, the Company works to pre-screen its essential suppliers and ensure that its suppliers sign appropriate confidentiality and information security appendices, etc.

In order to carry out the above, the Company invests considerable resources and may be required to increase the investment in these issues, taking into account the increase in risk, the increase in attempted cyber attacks and their sophistication, information security events that may be discovered and regulatory changes.

Despite the above, the Company cannot guarantee that the protective measures taken by it will completely prevent information security events or damage that may be caused as a result, as detailed above. This is especially in view of the lack of the possibility to identify all cyber-attacks when their occur or in the passage of time afterwards and/or the occurrence of cyber incidents as a result of non-technological failures, such as human errors or malicious acts. Furthermore, in certain cases, the occurrence of information security incidents at the Company's customers or suppliers can also lead to information security events in the Company's information systems.

19.9. Activity abroad

Due to the Company's activities in different countries of the world (mainly in the USA), the possibilities of supervision and control over the activities of the overseas subsidiaries are less than the possibilities regarding the organic activity in Israel. The limited control is liable to lead to late detection of problem areas, if any, in the Company's activities at remote sites, and to prevent the Company from reacting with the required speed. The Company is also exposed to risks deriving from the very activity in foreign countries (including political and state risks) and risks arising from an economic slowdown in those countries (particularly the USA), which will lead to a decrease in demand for the Company's services and impairment in its business results. See also, in this regard, section 19.3 above.

19.10. Technological developments and changes in the IT field

The Company's success depends on its ability to keep the solutions it offers its customers technologically up-to-date, and to develop or enter into agreements regarding new software systems and solutions that will keep pace with technological developments, the speed of changes in the field of IT and the changing standards in the industry, and the frequent changes in customer needs. There is no certainty that the Company will succeed in procuring on time the skills required for the new technologies (see, in this context, also section 19.5 above), or enter into agreements in connection with such systems and solutions, including, but not limited to, locating leading software providers and developing specializations and knowledge centers at the appropriate time, in order to deal with new technologies and/or with the changing demands of customers.

A delay or failure in the development, adoption or adaptation of appropriate solutions to technological changes and changes in market requirements may adversely affect the Company's business results.

19.11. Migration to Cloud solutions

The continuation of the increasing trend of the Company's customers to migrate to cloud solutions is indeed a business opportunity for expanding the Company's services on the one hand, but it does entail the risks of reducing the demand for other services provided by the Company on the other. For example: in the sector for Sales, marketing and support for software products, opportunities are opening up for the Company to market new cloud-based software products and solutions, but, in many cases, these are substitutes for "traditional" solutions of software products, which are also marketed by the Company. In the event that the extent of the decrease in demand for the Company's services, due to a transition to cloud solutions, exceeds the extent of the growth resulting from the cloud services marketed by the Company, the Company's business results may be adverserly affected.

In addition, the gross margins of the cloud solutions, supplied by the Company to its customers, are often lower than those of the "traditional" solutions provided by the Company in the past, and which were replaced by the cloud solutions. As a result, the Company's profitability may be eroded.

19.12. Significant dependence on Banking, finance and insurance and high-tech customer sector

The Company has no significant dependence on any customer. However, the Company considers the banking, finance and insurance customer sector and the high-tech sector as significant sectors in its activity (in the banking/financial sector both in Israel and in the US); see, in this regard, section 2 above. If the Company's engagement with some of its customers which are among the largest in these sectors is terminated at the same time, or if the extent of its activities with some of its customers in these sectors is significantly reduced, or if there is a slowdown in the rate of recruitment of new customers in these sectors by the Company, or if the terms of engagement with these customers materially change for the worse, or if there is a significant deterioration in some of these sectors that lead to a reduction in its IT demands, the results of the Company's activities are liable to be adversely affected as a consequence.

19.13. Government tenders

Part of the Company's activity is conducted on the basis of Government tenders. Delays in the approval of a State budget, among other things, in connection with political instability, or cuts in a future State budget may result in a reduction of State expenditure in the field of IT, as well as in other areas of the Company's activity vis-à-vis the Government. The resulting reduction in the scope of Government tenders and/or the failure to renew the Company's engagements in a number of Government tenders and/or the Company's failure to win a number of substantial tenders, may impair the Company's revenues or create a need to submit offers with lower profit margins and result in impairment to the Company's business results.

19.14. Contractual engagements with customers on a fixed price basis

An increasing part of the Company's income is derived from contracts on a fixed-price basis. The pricing for these engagements is based on an estimate of future costs. In cases where the Company does not accurately estimate the resources required to carry out projects at a fixed price, and/or does not correctly estimate the costs of employee wages during those projects (including expected salary increases during the project (In this regard, see also section 19.5 above.), or its ability to complete its obligations on time established for this, may adversely affect the Company's business results. This risk will increase in direct proportion to the increase in the scope of fixed-price projects carried out by the Company, in light of the Company's tendency to expand its project activities. A similar risk, albeit to a lesser extent, exists in respect of the expansion of the activities of the services managed by the Company.

19.15. Commitments with clients for the provision of professional services

In recent years, there has been a growing trend of customers replacing Professional services (PS) in the IT field, based on time and materials (T&M) pricing, for engagements based on managed services (outsourcing), which are based on defined product specifications (SOW) and fields (see section 6.2 1 d above).

If the Company does not manage to adjust to this trend in the Professional services market, while reducing the impairment to commitments for Professional services on the one hand, and increasing contracts with its customers based on managed services on the other hand, the Company's business results may be adversely affected.

19.16. Dependence on suppliers and software manufacturers

The Company has no material dependence on any supplier. However, if the Company's engagement with a number of its major suppliers is terminated at the same time and/or if the terms of the commitment with these suppliers are substantially altered, and/or if those suppliers or software manufacturers expand their direct activity in the local market, including directly providing competing services for the services that the Company provides to its customers in connection with their products, and/or they appoint additional distributors, and/or the status of those suppliers is harmed, and/or if they are purchased by a competitor, and/or if their activity is discontinued for any reason, the results of the Company's activity may be adversely affected as a consequence.

In addition, some of the Company's Professional services to its customers, both in Israel and in the US, are based on software products of leading software manufacturers and on the Company's business relationships with those software manufacturers. The termination of the Company's contract with those software manufacturers and/or a significant deterioration in the contract terms of the Company against them may lead to direct impairment in the scope of the Company's professional services, based on the software products of those companies, and adversely affect the Company's business results.

19.17. Supply chain delays and chip shortages

In recent years, there have been disruptions in global supply chains, significant delays in delivery dates at the same time as a sharp increase in transportation prices, particularly sea transportation (although these have moderated and even decreased in recent times due to the end of the coronavirus wave). At the same time, there has been a shortage of electronic chips.

The combination of the two trends noted above mainly affects the activity of the Company's Cloud Infrastructure and Computing sector and may lead to delays in the supplies of the equipment ordered by customers of this sector in the Company, as well as an increase in the prices of the equipment. This relates to both the computer and server equipment sold by the Company, the printers and the printing services which are the basis of the activity of the subsidiary Gestetnertec, the audio equipment sold by the subsidiary Top-Tech, the multimedia components which are the basis of the activity of the subsidiary, AVB and the control and automation equipment and the testing equipment marketed by RDT and Asio.

To the extent that these trends, of supply delays and price increases continue, they may lead to difficulties in the Company's ability to meet the demands of its customers and/or to delays in supply and/or to an increase in the Company's procurement costs and, as a result, lead to impairment in the business results of the Company's Cloud Infrastructure and Computing activity.

19.18. Entry into new areas of activity

As stated above (see section 17 above), the Company's business growth strategy is based, among other things, on entry into new technological areas and new areas of activity, as well as on expansion into tangential areas of activity, which have significant business potential for continued growth over time. Of course, this is an entry (in some cases, on the basis of purchases) into areas of activity in which the Company does not have many years of cumulative experience, and as a result, the Company may incur losses due to difficulties entering such new areas, which will lead to impairment to the Company's business results.

19.19. Legal and insurance risks

Due to the complex nature of some of the Company's engagements, especially regarding projects for establishing systems and software solutions and managing complex infrastructure projects, the Company has legal exposure to the opening of legal proceedings by the Company's customers. The Company is taking steps to mitigate the said risks, both through the terms of the contract and the limitation of its liability in agreements with its customers, through the purchase of general liability and professional liability insurance, and through strict management of the projects it carries out and the services it provides, in accordance with, and fully subject to the contractual conditions underlying the legal commitment of each of those projects.

If legal claims are brought against the Company and it loses in the legal proceedings that may be opened against it as a result, in an amount that exceeds the amount of its insurance coverage, or in the event that changes are introduced in to its insurance policies, the Company's business results are liable to be adversely affected.

In addition, the software manufacturers with which the Company has contracted has limited their liability in the commitment agreements with them for damages caused to the end-user of these products. In the event that the Company is found liable for damages caused as a result of products marketed by it or as a result of projects and services performed by it, this is liable to adversely affect the Company's business results.

Furthermore, professional insurance costs have been on a sharp upward trend for several years. Since the Company takes care to maintain adequate insurance coverage for its activities, its expenses for these insurances are expected to increase.

Concentration of risk factors / Type of risk	Nature of the risk	Severity of risk
Macro risk factors	The economic/political/security situation in Israel	High
	An increase in the interest rate	Mediu m
	The political and economic situation in the USA	Medium
	Change in the exchange rate of the dollar	Low
Sectoral risk factors	Human Capital	Mediu m
	Mergers And Acquisitions	Medium
	Competition	Medium
	Cyber and information security	High
Unique risk factors	Activity Abroad	Medium
	Technological developments and changes in the IT field	Low
	Migration to Cloud solutions	Medium
	Significant dependence on customers	Low
	Government tenders	Medium
	Contractual engagements with customers on a fixed price basis	Medium
	Commitments with clients for professional services	Low
	Dependence on suppliers and software manufacturers	Medium
	Supply chain delays and shortages of electronic chips	Low
	Entry into new areas of activity	Low
	Legal and insurance risks	Low

20. Glossary

For the sake of convenience, in this report the following terms will have the meaning listed next to them, unless a different intention is implied from the context:

Term	Definition
"**Matrix**" or "**the Company**"	Matrix IT Ltd.
"**the Group**" or "**the Matrix Group**"	The Company and its subsidiaries
"**Agile**"**-** Agility (agility + flexibility)	An iterative approach to project management and software development that helps teams provide value to their customers and aims to enable rapid responsiveness and flexibility to changes. The "Agile" approach is based on continuous and ongoing dialogue between the staff members and the customer in order to deal with changes in requirements as early as possible and to bring about early detection of problems in the software, which will allow them to be dealt with in the early stages.
"**AI**" **-**Artificial Intelligence	A branch of computer science that deals with the ability to program computers to act in a way that displays capabilities that have so far characterized only in human intelligence.
"**ALM**"– Application Lifecycle Management (Management of the software development life cycle)	Tools and methodologies that make it possible to manage the software development process in a systematic, consistent and measurable and controlled way throughout the software development life cycle.
"**API**"– Application Programming Interface	API defines a way of interfacing between several programs or between hardware and software. The API defines the type of calls or requests that can be made, how to make them, the data format to use, etc. and can also provide mechanisms so that developers can extend the existing functionality in various ways.
"**AR**" - Augmented Reality	Technology that enables the reflection of reality with the addition of layers of information. Mirroring combines virtual elements that merge with the real environment in real time and interactively.
"**BCP**" **-** Business Continuity Planning	A management doctrine that relates to the activity that an organization is required to perform in order to ensure that critical business functions will be available to customers, suppliers, regulators and other entities with an interest in the organization in order to prepare and organize to achieve rapid recovery capability following a disaster.
"**BI**" **-** Business Intelligence	An environment in which business users receive reliable, consistent, structured information that can be investigated easily and simply and at the right time. Business intelligence serves two essential purposes: measuring the financial and functional "health" of the business (reports, alerts, research tools, performance indicators and timetables), and regulating the organization's activity by two-way information transfer with operational systems.

Term	Definition
"**Big Data**"	A database of extremely large complexity and volume characterized by 3 main "V"s: Volume (extent), Velocity (update rate), Variety (diversity of information types in terms of structure, type and nature of the data).
"**BPO**" **–** Business Process Outsourcing	Transferring business processes to the operation and responsibility of an external supplier - a third party.
"**BSM**" - Business Service Managment	Solutions for the management and operation of business services of organizations that enable total organizational control and monitoring and contribute to improving "Agility" through automation.
"**Container**"	A method of packaging an application, or a part of an application, in isolation, along with everything that is needed to run it. An application or a part of an application when it is packaged, can be run separately, on different infrastructures, increase the resources for that part of the application or update a version of only this part. Containers are the cornerstones of advanced software architectures.
"**Customer Experience**" **(CX)**	The set of interactions the customer has with the organization. Planning the customer experience allows you to define a plan that will help provide the customer with a positive and meaningful experience throughout all his points of contact with the organization, whether through digital or physical channels (branches, billboards, television, etc.).
"**Data Science**" – Data science, also known as "**Data-driven Science**"	A field of scientific methods, processes, algorithms and systems for sharing knowledge or generating insights from data in various forms, structured or unstructured, similar to data mining and to machine learning.
"**DBA**" – Data Base Administration	Planning, design, construction, ongoing maintenance, protection and constant optimization of the organization's databases, maintaining the "health" of the database including survivability, availability, information security and performance
"**Deep Learning**"- "**Machine Learning**"	Computational learning deals with algorithms that allow the computer to learn from examples and is suitable for a variety of computational tasks where classical programming is not possible. Deep Learning is a subfield of Machine Learning that handles even more difficult problems using huge data, unique hardware and multi-parameter neural networks.
"**DevOps**"	A development culture that allows Dev-Development and Ops-Operation teams to work together on software planning, development, testing, distribution and operation, through a combination of automated tools, flexible computing infrastructure and work principles.
Digital Transformation	A process of adopting and ementing digital technologies in the business environment for the purpose of streamlining business processes, improving service and customer experience, integrating innovation, entering new markets and more.

Term	Definition
"**DRP**"**–** Disaster Recovery Plan	A plan that includes processes, policies, procedures and infrastructure used to recover from a disaster that temporarily disables the technological infrastructure essential to the operation of an organization (such as: fire, earthquake, explosion, etc.), which is a subprocess of the Business Continuity Process (BCP) detailed above.
"**EIM**"– Enterprise Information Management	Corporate information management, EIM should ensure the reliability, integrity and consistency of information throughout all business processes in the organization.
"**ERP**" - Enterprise Resource Planning	A system that is used for administrative data processing and handles as one piece (integrative) key business processes in the organization including: human resources, finances, logistics, production, operations, etc.
"**Fixed Price**"	A contract with a pre-agreed amount in which the supplier is responsible for completing the project and providing agreed contents, subject to the amount stipulated in the contract.
"**GRC**" – Governance, Risk and Compliance	A combination of three disciplines: corporate governance, risk management and compliance (for regulations, laws and internal organizational procedures). The common denominator for all of them is the protection and safeguarding of the organization from external threats, criticism from the regulators and management failures.
"**IaaS**" – Infrastructure as a Service	A computing model in which computing infrastructures (computing power, memory, storage space) are offered for use as a service and can be consumed in a pay-as-you-go model, where the resources provided increase/decrease as needed (On-Demand) in an elastic manner.
"**IoT**" - Internet of Things"	A linked set of objects, uniquely identified, that incorporate technology that allows them to connect, monitor and perform operations. The "things" act against themselves, against the environment and against other objects.
"**Industry 4.0**"	A term that represents an organizational concept for managing factories and industrial processes in a smart and modern way, including communication capabilities and interfaces of the production machines and integrating technologies such as the Internet of Things, real-time information analysis, robotics, artificial intelligence and cyber defense. In the Industry 4.0 era, machines will be increasingly based on machine learning and will be able to make independent decisions using Big Data, design the production process and carry out simulations, with the help of cloud computing. A combination of robotics and smart sensors will improve and refine the production process.
IIoT – Industrial Internet of Things	A specific type of IoT applied in the industrial sector in manufacturing plants. Focusing on machine-to-machine (M2M) communication, Big Data and Machine Learning (M2M), the IIoT enables industries and organizations to have better efficiency and reliability in operating the production floor.

Term	Definition
"**ITSM**" - IT Service Management	All the activities guided by policies, processes and procedures which regulate the IT services that the information systems organization provides to its internal and external customers
Low Code	A code development method using graphical interfaces and configuration tools alongside traditional code development. Enables rapid development of applications and a significant "shortcut" on the way to working applications
"**MES**" **-** Manufacturing Execution Systems	A computerized system used in production for monitoring and documenting the process of turning raw materials into products in the process on the production floor and combining the products of the finished products in the warehouse for delivery to customers
"**Metaverse**"	Metaverse describes a virtual universe in 3D that runs and exists in parallel with the real world, as a kind of extension of the Internet that we know today. The transition from the "current" Internet to the Metaverse is possible thanks to the maturation of technologies such as AR/VR technologies, full human-computer interactivity, artificial intelligence, blockchain, cloud computing and others.
"**Nearshore**"	An outsourcing sector that includes the transfer of various professional activities, which are not part of the Company's core areas, to companies that specialize in these areas and operate in the same country where the Company itself operates.
"**NLP**" **-** Natural Language Processing	A subfield of artificial intelligence and linguistics that investigates the problems associated with the processing and manipulation of natural language, and the understanding of natural language in order to make computers "understand" things that are said or written in human languages.
"**OEM**" **-** Original Equipment Manufacturer	A term used in various fields of production (including computing), which describes a manufacturer who integrates into his product a component (hardware or software) purchased from another company
Offshore	In the Offshore model, organizations turn to suppliers from foreign countries and transfer various professional activities to them compared with the Nearshore model in which organizations transfer professional activities to suppliers from the same country.
"**Open API**"	A public API (sometimes called Public API) which is open for wide use and allows with few restrictions (for example the obligation to register) interfacing with organizational systems. Open API is based on open standards. A clear example of an Open API is the Open Banking standard that the Bank of Israel (like the European market) requires banks to implement, thus increasing competition and creating innovation through the connection to Fintechs.

Term	Definition
"**Open Banking**"	Open banking allows customers of banks and credit card companies to share their financial information with third parties so that new players, not necessarily banks, can access the customer's bank account, with his consent, and offer him banking services tailored to his needs. In recent years, in-depth regulation regulating the field of open banking has developed in the world.
"**Open Source**"	A decentralized model for software development in mass/community collaboration. The source code is accessible and open to the public, with the aim of encouraging a joint effort in which many programmers work individually to improve it. The code is released under the terms of the software license according to which the programmers download the code, make changes to it and upload their version back to the community.
"**PaaS**" **-** Platform as a Service	A service that provides a platform for developing, running and managing applications over the network in a model of subscription to the service (Subscription) and/or payment according to use (Pay Per Use).
"**PLM**" – Product Lifecycle Management	The process of managing the engineering knowledge in the life cycle of the product from the idea stage, through the stages of design, detailed design, production, marketing and sales, service and recycling or disposal.
"**RPA**" **-** Robotic Processing Automation	Software that becomes repetitive and rule-based processes performed by humans into automatic processes performed by bots.
"**Ransomware**"	Malware that limits access to the infected computer systems, and is used to extort money from the user (ransom fee) in order to remove the access restriction. Some ransomware encrypts files on the hard drive, thus making the decryption process difficult without paying a ransom for the encryption key, while other ransomware simply locks the system and displays a false message that the files cannot be accessed, in order to deceive the user and encourage them to pay. Most often, the ransomware penetrates the computer as a Trojan horse, disguised as an innocent file.
"**SaaS**" - Software as a Service	Delivery of applications (e.g. email, billing, ERP, CRM) for services over the network, without local installation, in the model of registration for the service (Subscription) and/or payment according to use (Pay Per Use).
"**SLA**" - Service Level Agreement	A legal agreement between the service provider and the service recipient that quantitatively and conclusively defines the framework of the service, its content, how it is measured and its limitations. The agreement can contain a fine/reward mechanism according to compliance with the required service level.
"**SOC**" **-** Security Operation Center	An information security center in an organization that includes personnel, processes and dedicated technology for the purpose of prevention, detection, monitoring, analysis and ongoing response to information security and cyber incidents.

Term	Definition
"**Soft Skills**"	The set of skills which are required for an employee/person as a basis for achieving his goals and are not derived directly from his profession/specialization (for example: interpersonal communication, presentation and public speaking skills, persuasion skills, negotiation skills, etc.).
"**T&M**" - Time & Materials	A billing method based on actual labor time spent plus the cost of materials
"**WMS**" **-** Warehouse Management System	WMS is software that allows you to manage logistics warehouses efficiently and effectively, sometimes in combination with robotic systems.

CHAPTER B

Report Of The Board Of Directors For The Year Ended December 31, 2022

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1. Explanations of the Board of Directors for the business situation of the corporation

1.1. Main data from the description of the corporation's business

1.1.1. Description of activity segments

Matrix IT Ltd., together with its subsidiaries, is a company operating in the fields of Information Technology Solutions and Services, Consulting and Management.
The Matrix Group employs approximately 11,200 software, hardware, engineering, integration and training personnel, who provide services in the fields of information technology and advanced management to hundreds of customers in the Israeli market, specializing in Banking and finance, High-tech and start-ups, Industry and trade, Education and academia, Health, Security, Transportation , Government and the public sector. The Group is also engaged in the sale and marketing of software and hardware products of a wide variety of manufacturers from Israel and abroad and in the provision of consulting services, project management and multidisciplinary engineering consulting. The solutions, services and products that the Group provides are intended to improve the competitiveness of its customers in the markets in which they operate, by providing an solution to their unique needs in the field of IT, in the field of operational optimization and in the field of management and engineering.

The Company has five (5) fields of activity - (1) Information technology solutions and services, consulting and management in Israel; (2) Information technology solutions and services in the United States; (3) Sales, marketing and support of software products; (4) Cloud infrastructure and computing; and (5) Training and implementation - providing solutions, services and products, mainly to the following customer segments ("segments"): Banking and finance, High-tech and startups, Government and the public sector, Defense, Transportation, Health, Industry, Retail and trade, Education and academia. Within each of the segments there are dedicated departments that specialize in providing specific solutions to the specific customer segment in which they operate, as well as managing and executing projects for the Company's broad bodies.
The specialization in the various segments is reflected in the applied, professional and marketing aspects of that segment. Accordingly, in each segment,
a professional and marketing infrastructure has been developed which is required to support that segment.

1.1.2. The business environment

The business environment in which the company operates is directly affected by global and local trends and events, the most important ones being:

<u>An increase in inflation and interest rates - the possibility of an economic slowdown</u>
In 2022, the global trend of increasing price levels in Israel and around the world intensified, inter alia, against the background of economic and geopolitical events, such as another coronavirus wave, the renewal of the closures in China and the war in Ukraine. These factors, as well as the increase in energy prices (the impact of which in Israel is significantly moderate compared with the rest of the world) and transportation prices, led to a sharp increase in inflation to a level of about 6.5% in the US and about 5.3% in Israel at the date of the Report. Inflation rates immediately prior to the publication date of the report are about 6.4% in the US and about 5.4% in Israel.
In an attempt to curb inflation, almost all central banks continued to raise interest rates - the interest rate in the US was raised sharply to a rate of 4.5% (as of December 31, 2022, from a rate of 0.25% at the beginning of 2022), and in Israel, from the beginning of 2022, the Bank of Israel raised the rate the basic interest rate in the economy (Bank of Israel interest rate) from 0.1% to 3.25% (as of the date of the Report). The interest rates immediately prior to the date of publication of the report are 4.75% in the US and 4.25% in Israel. The increase in interest rates in Israel and abroad, by its very nature, may lead to a slowdown in economic activity in the countries in which the Company operates and its customers operate.

It should be noted that the unemployment rate in Israel remains stable at a relatively low level, despite a slight increase in the unemployment rate in the second half of 2022. According to Bank of Israel forecasts, the unemployment rate in Israel is expected to be 3.2% at the end of 2022 and 4% at the end of 2023.

Notwithstanding the above, the Company's activity in 2022 was characterized by the continued increase in its scope of activity, revenues and profit (this, despite the derecognition of the consolidation of the results of the subsidiary company Infinity, following its sale at the beginning of the second quarter). At the same time, the increase in interest rates in the economy led to an increase in the Company's financial expenses, mainly in the second half of the year.

According to the Company's assessment, the impact of inflation on the operating results is not expected to be material, inter alia, since the Company's financial debt is not index-linked. On the other hand, the trend of rising interest rates is expected to continue to have a negative effect on the results of operations in the form of an increase in financing costs for variable interest loans (commercial securities and short-term bank loans), as well as for new fixed interest loans that will replace loans that reach their date of maturity.

In order to mitigate the exposure to the impact of the increase in interest rates in the economy, in the second half of 2022, the Company effected a issue of Series B debentures with a fixed interest rate for a period of about 7.5 years for a total amount of about NIS 475 million, an amount that was used, inter alia, to exchange short-term loans with a variable interest rate. It should also be noted in this context that the main component of the Company's expenses is wages (approximately 55% of the Company's operating expenses), which, according to the Company's assessment, is mainly influenced by trends in the demand for and supply of technological manpower and inflation is expected to have a limited effect on it (With regard to changes in the labor market and their effect on the Company, see also section 6 of Chapter A of the Report regarding Description of the corporation's business).

Nevertheless, insofar as the trend of the increase in inflation, along with the increase in interest rates, continue to be high and prolonged and to the extent that these will lead to a recession and an economic slowdown in Israel (and/or in the US), these may lead to a decrease in demand and even damage to some of the company's customers and consequently damage to the results of its operations of the company.

High-tech industry

As a company that provides solutions, products and services in the field of Information systems, the Company competes with other companies in the High-tech industry for quality personnel. In addition, a significant part of the Company's sales (16.7% in 2022) is to companies in the high-tech industry.

After a record year in the high-tech industry in 2021, 2022 marked a significant slowdown in the field of high-tech in Israel and around the world. This slowdown was reflected, inter alia, in a sharp decrease in the scope of capital-raising in the sector, the closure of start-up companies, and as a result, reductions in the workforce and layoffs. A large proportion of those who were laid off have been taken back to work in the industry, which still suffers from a shortage of technological manpower. According to the data of the CBS and the Innovation Authority, as of the end of October 2022, there was a demand for about 13,000 engineering positions, of which about 8,700 jobs were in software development.

According to the Company's assessment, the trend of manpower reduction in high-tech companies may make it easier for the Company to recruit and retain employees, in addition to a significant recession of pressures for salary increases on the part of the employees, which the Company has experienced in recent years. On the other hand, the slowdown in the high-tech industry may lead to a decrease in demand and even adversely impact some of the Company's customers in this field of activity, and consequently, to impair the results of the Company's activity.

Fluctuations in foreign exchange rates

Changes in the exchange rate of the dollar in relation to the shekel affect the results of the Company's activities, as some of its transactions with suppliers and customers are denominated in dollars. As a rule, the increase in the dollar exchange rate has a positive impact on the results of the Company's activities, with an emphasis on the Information technology solutions and services segment in the US, the areas of Cloud infrastructures and computing and the area of Sales, marketing and implementation of software products. In 2022, the exchange rate of the dollar against the shekel increased by 13.2%, compared to a decrease of 3.3% in 2021. [For more details regarding the business environment, see also Section 6 of Chapter A of the Report regarding the Description of the corporation's business].

The Company is unable to assess the full future effects, whatever they may be, of the factors set forth above, on the economic situation in Israel and the US, in general, and on the Company's activities, in particular. The Company estimates that its financial strength, together with its cash balance and the high current cash flow that it generates , will allow it to continue to finance its current activity, to continue investing in future growth, including through mergers and acquisitions, while meeting all its obligations.

What is stated in this section above includes forecasts, estimates, assessments and other information relating to future events, the degree to which they will materialize is uncertain and is not under the control of the Company alone (forward-looking information). The main facts and data that served as a basis for this information relate to the current state of the Company and its businesses, in its areas of activity, to macroeconomic facts and data, all as known to the Company at the time this Report was prepared. The materialization of the forward-looking information is uncertain and will be affected by the risk factors that characterize the Company's activity, as well as the developments in the economic environment and the external factors that affect the Company's activity, which cannot be assessed in advance and are not under the Company's control.

1.1.3. Significant events during the reporting period

Sale of holdings in Infinity Labs R&D Ltd. (hereinafter "Infinity"), a subsidiary of the Company

For details regarding the completion of the sale transaction and its impact on the financial statements, see note 3(e) to the consolidated financial statements.

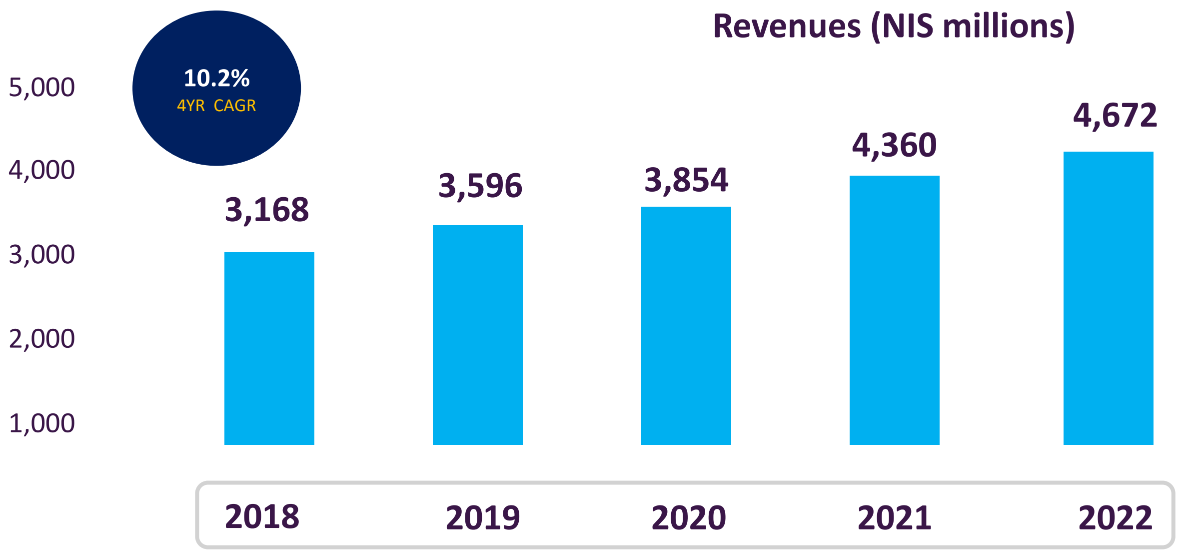
Acquisition of a subsidiary, RDT Group

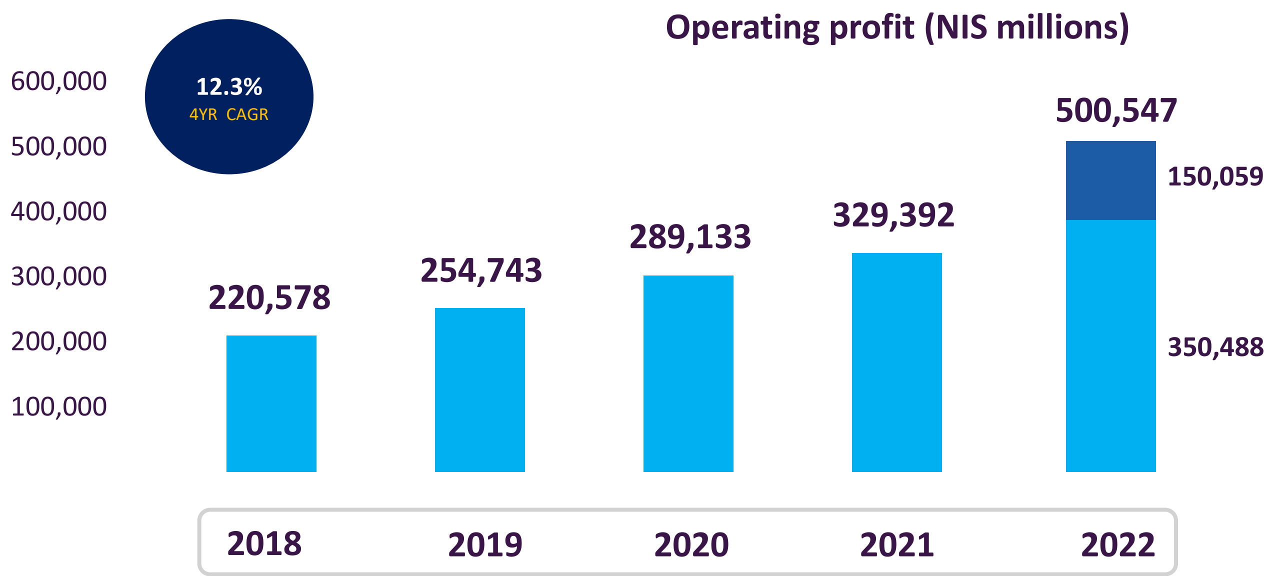
For details regarding the completion of a transaction to purchase 100% of the share capital of the companies ,RDT Equipment and Systems (1993) Ltd., Asio Vision Ltd. and R.S.A. Test Systems Industry Ltd. (hereinafter collectively, "RDT"), see note 3(f) to the consolidated financial statements.

Issue of Series B debentures

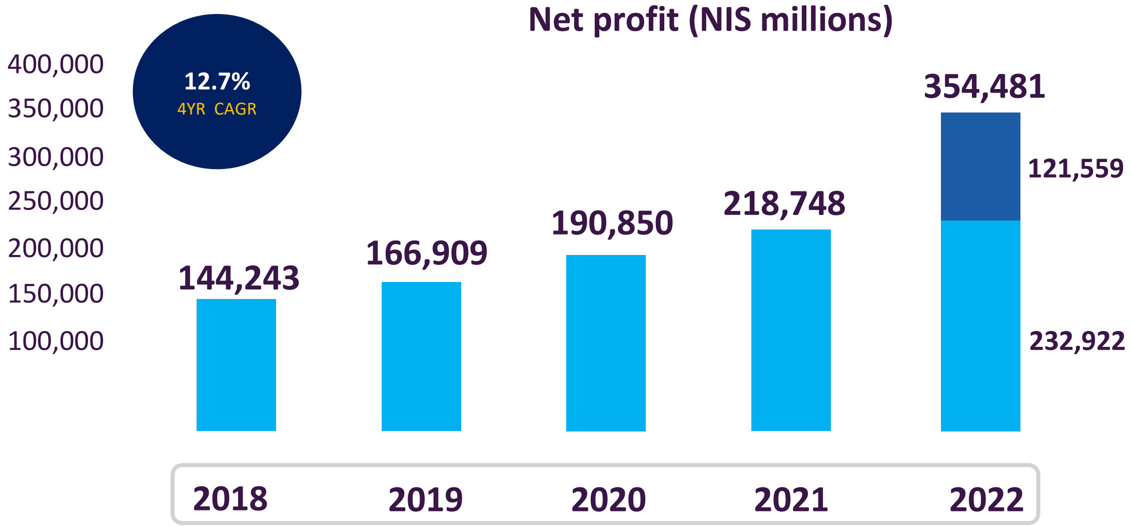
On September 18, 2022, the Company completed the issue of Series B debentures in the amount of NIS 293 million, net. In addition, on December 4, 2022, the Company issued Series B debentures by way of series expansion, in the amount of NIS 178 million, net. For details, see Appendix A to the Report of the Board of Directors and note 19 to the consolidated financial statements.

1.1.4. Main breakdown of results of activity in the past 5 years (2018-2022)

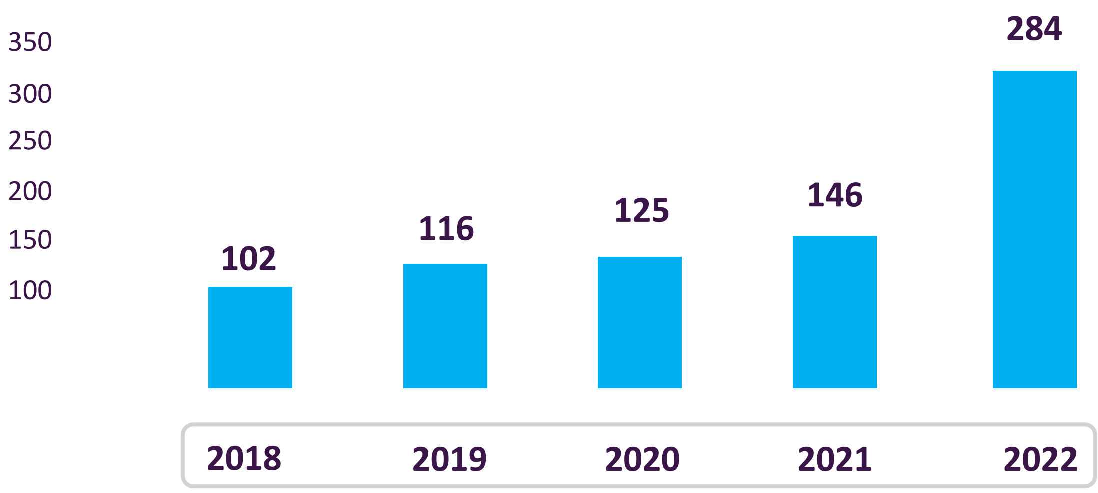




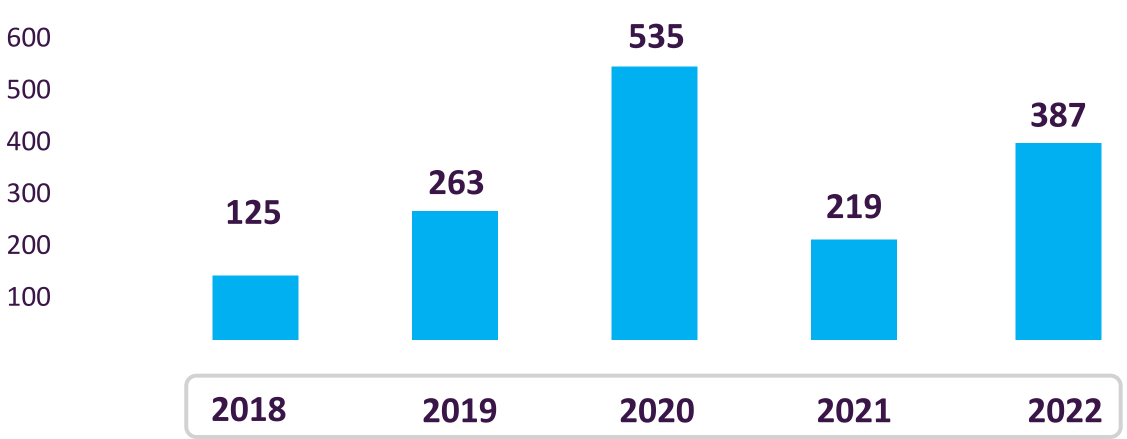
Net profit (NIS millions)



Distribution of dividend (NIS millions)



Cash flow from operating activities (NIS millions)



1.1.5. Condensed statements of consolidated income for the years ended December 31, 2022 and December 31, 2021 (NIS in thousands)

	For the year ended 31.12.22	For the year ended 31.12.21	Percentage change
Revenue turnover	4,672,689	4,360,148	7.2%
Cost of sales and services	4,000,682	3,729,745	
Gross profit	672,007	630,403	6.6%
% of sales	14.4%	14.5%	
Selling and marketing expenses	166,246	147,555	12.7%
General and administrative expenses	155,273	153,456	1.2%
Operating profit before gain on realization of investment	350,488	329,392	6.4%
% of sales	7.5%	7.6%	
Gain on realization of investment	150,059	-	
Operating profit	500,547	329,392	
Financial expenses (net)	45,781	45,198	1.3%
Income before deduction of taxes on income	454,766	284,194	60%
Taxes on income	100,285	65,446	53%
Net income	354,481	218,748	62%
%	7.6%	5%	
Net income attributable to::			
Shareholders of the Company	334,669	195,341	71%
Non-controlling interests	19,812	23,407	
Net income	354,481	218,748	62%
%	7.6%	5%	
EBITDA[1]	512,713	477,129	7.5%
%	11%	10.9%	

[1] Profit before financing, taxes, depreciation and amortization and before capital gain from the realization of an investment

1.1.6. Main results of the Company's activity canceling the effect of a capital gain from the realization of an investment in a subsidiary (NIS in thousands)

	For the year ended 31.12.22	For the year ended 31.12.21	Percentage change
Revenue turnover	4,672,689	4,360,148	7.2%
Operating profit	350,488	329,392	6.4%
Net profit	232,922	218,748	6.5%

1.2. Analysis of results of activity

1.2.1. Analysis of results – 2022 compared with 2021

1) Sales of the Company in 2022 amounted to NIS 4,672 million compared to NIS 4,360 million in 2021, an increase of 7.2%. The increase in sales in 2022 is due to an increase in activity in all segments, with an emphasis on the Cloud and computing infrastructure segment, which grew by NIS 189 million in the period, compared with the corresponding period last year.
   It should be noted that the change in the volume of sales as stated above was affected by the sale and derecognition of the consolidation of Infinity (which contributed 3.3% of all sales in the corresponding period last year), as well as by the initial consolidation of RDT commencing the third quarter of 2022. After canceling the effect of the two outcomes as mentioned, the Company recorded organic growth in revenues in 2022 at a rate of 8.5%.

2) Gross profit in 2022 amounted to NIS 672 million and stood at a rate of 14.4% of sales compared to NIS 630.4 million in 2021, which constituted 14.5% of sales, an increase of 6.6%.
   The increase in total gross profit in the period, alongside the slight decrease in the rate of gross profit from total revenues, is mainly due to the significant increase in revenues from the Cloud and computing infrastructure segment, which is characterized by a lower gross margin compared with the other segments, with an emphasis on the continued growth in the Cloud infrastructure business in this segment, alongside the termination of the consolidation of Infinity's results commencing the second quarter of 2022. The aforementioned increase was partly offset by an increase in the volume of revenues from the Information and technology solutions and services segment in the US, where the profitability rate is higher.

3) Sales, marketing, management and general expenses in 2022 amounted to NIS 321.5 million, which constituted 6.9% of sales, compared to NIS 301 million in 2021, a similar percentage of total sales.
   The increase in sales, marketing, management and general expense items was due to the increase in the scope of the Company's activities. In addition, most of the increase in expenses as mentioned is attributed to the increase in sales and marketing expenses, while management and general expenses remained at a similar amount to the corresponding year last year (a negligible increase of 1.2%).
   Selling expenses in the period include amortization of intangible assets which were recognized as part of mergers and acquisitions (customer base and backlog of orders) amounting to NIS 20.8 million (NIS 21.5 million in the corresponding period last year).

4) Operating profit

Profit from ordinary operations during the period (excluding the capital gain from the realization of the investment in Infinity) amounted to NIS 350.5 million, which accounted for 7.5% of sales, compared with NIS 329.4 million in the corresponding period last year, which accounted for 7.6% of sales, an increase of 6.4%.

The increase in the amount of operating profit in the period, compared with the corresponding period last year, along with the slight decrease in the rate of operating profitability, are due to the factors detailed above with reference to the gross profit.

It should be noted that the change in the operating profit, as stated above, was affected by the sale and termination of the consolidation of Infinity (which contributed approximately 7.5% of the Company's operating profit in the corresponding period last year), as well as by the initial consolidation of RDT commencing the third quarter of 2022. By canceling the effect of aforementioned two outcomes, the Company recorded in 2022 organic growth in the operating profit at a rate of 11.7%.

5) Capital gain from realization of investment

In the second quarter of 2022, the Company recognized a capital gain due to the completion of the sale transaction to realize the majority of its holdings in Infinity amounting to a total of NIS 150.1 million before tax and a total of NIS 121.6 million after taxes on income. For further details, see note 3e to the financial statements.

6) Financing income / expenses

Financing expenses (net) in 2022 amounted to NIS 45.8 million compared to NIS 45.2 million in 2021.

The following is a breakdown of the financing expenses (NIS in thousands):

	For the year ended 31.12.22	For the year ended 31.12.21	Change in NIS in thousands
Interest, commission and other (net)	28,975	22,709	6,266
Exchange rate differences–expenses (income)	(2,747)	3,276	(6,023)
Remeasurement of liabilities expenses in respect of option to minority and in respect of leases	19,553	19,213	340
Total financing expenses (net)	**45,781**	**45,198**	**583**

As detailed above, the main change in net financing expenses, in 2022 compared to the corresponding period last year, derives from an increase in interest expenses on the Company's financial liabilities, due to the increase in interest rates in the economy. The increase in interest expenses was partly offset by the recording of income for exchange rate differences, compared to expenses for exchange rate differences in the corresponding period last year, mainly as a result of the strengthening of the exchange rate of the dollar in relation to the shekel during the period (For details regarding the rate of change in the exchange rate of the dollar in relation to the shekel, see note 2 to the financial statements). For further details regarding financing costs, see also notes 10, 19 and 21e to the financial statements.

7) Taxes on income

Tax expenses in 2022 amounted to about NIS 100.2 million and accounted for 22.1% of the taxable profit, compared with NIS 65.4 million in 2021, which accounted for 23% of the taxable profit.

The increase in tax expenses was mainly due to the payment of tax in respect of the capital gain resulting from the sale of holdings in Infinity amounting to NIS 28.5 million.

8) Net profit

Net profit in the period amounted to NIS 354.4 million, which accounted for 7.6% of sales, compared with NIS 218.7 million, which accounted for 5% of sales in the corresponding period last year, an increase of 62%. Canceling the effect of the net capital gain from the sale of Infinity, net profit in the period amounted to NIS 232.9 million (5% of sales), an increase of 6.5% compared with the corresponding period last year.

9) Total comprehensive income (NIS in thousands)

	For the year ended 31.12.22	**For the year ended 31.12.21**	**Percentage change**
Net profit	354,481	218,748	62%
Other comprehensive income (after the effect of tax):			
Amounts that will not be subsequently reclassified to profit or loss:			
Gain (loss) from remeasurement in respect of defined benefit plans	8,923	9,017	(1%)
Amounts that will be classified or reclassified to profit or loss if specific conditions are met:			
Change in fair value of instruments used for cash flow hedging	(375)	-	
Adjustments arising from the translation of financial statements	35,842	(12,031)	397.9%
Total comprehensive income	**398,871**	**215,734**	**84.9%**

10) Profit before interest, taxes, depreciation and amortization - EBITDA (NIS in housands)
The EBITDA figure is included in the Report due to its being an accepted index for measuring the results of activity in similar companies, which is an approximation of operating income flows, which cancels the effect from the operating income expenses not involving cash flows, such as depreciation and amortization expenses, including due to intangible assets acquired in business combinations.

The following sets forth the EBITDA index and adjusted EBITDA index, canceling the effect of IFRS 16:

	For the year ended 31.12.22	For the year ended 31.12.21	Percentage change
Operating profit	350,488	329,392	6.4%
Depreciation and amortization	162,225	147,737	9.8%
EBITDA	**512,713**	**477,129**	**7.5%**
% of total sales	**11%**	**10.9%**	
Canceling the effect of IFRS 16[2]	106,090	93,393	13.6%
EBITDA after canceling the effect of IFRS 16	406,623	383,736	6%
% of total sales	8.7%	8.8%	

11) Diluted net earnings per share attributable to the Company's shareholders

Year	NIS
2022	5.30
2021	3.09
2020	2.74
2019	2.54
2018	2.23

[2] In accordance with International Financial Reporting Standard Leases IFRS16 (presented under depreciation and financing expenses).

1.2.2. Summary of consolidated profit and loss results by quarters for 2022 including the fourth quarter of 2021 (NIS in thousands)

	Q4/22	Q3/22[3]	Q2/22[3]	Q1/22[3]	Q4/21
Sales turnover	1,218,785	1,130,247	1,165,672	1,157,985	1,159,856
Cost of sales and services	1,035,568	968,844	1,006,081	990,189	986,711
Gross profit	**183,217**	**161,403**	**159,591**	**167,796**	**173,145**
% of sales	**15%**	**14.3%**	**% 13.7**	**14.5%**	**14.9%**
Selling and marketing expenses	45,896	41,045	39,465	39,840	40,675
General and administrative expenses	43,269	40,218	35,928	35,858	42,345
Operating profit before financial expenses, net, and gain from realization of investment	94,052	80,140	84,198	92,098	90,125
% of sales	**7.7%**	**7.1%**	**7.2%**	**8%**	**7.8%**
Gain from realization of investment			150,059		
Operating profit after realization of investment	**94,052**	**80,140**	**234,257**	**92,098**	**90,125**
Financing expenses, net	23,854	10,875	4,076	6,976	11,862
Operating profit before deduction of taxes on income	70,198	69,265	230,181	85,122	78,263
Taxes on income	16,953	18,828	47,367	17,137	17,205
Net income	**53,245**	**50,437**	**182,814**	**67,985**	**61,058**
% net income	**4.4%**	**4.5%**	**15.7%**	**5.9%**	**5.3%**
Other comprehensive income (after the effect of tax)					
Adjustments arising from translation	1,308	327	29,418	4,789	(11,852)
Remeasurement in respect of defined benefit plans	1,794	1,887	1,842	3,400	4,545
Change in fair value of instruments used for hedging cash flow	(375)				
Total comprehensive income	55,972	52,651	214,074	76,174	53,751
Net earnings attributable to:					
Shareholders of the Company	50,134	46,507	178,884	59,144	54,083
Non-controlling interests	3,111	3,930	3,930	8,841	6,975
Net profit	**53,245**	**50,437**	**182,814**	**67,985**	**61,058**
Total comprehensive income attributable to:					
Shareholders of the Company	53,246	48,680	210,260	67,075	47,138
Non-controlling interests	2,726	3,971	3,814	9,099	6,613
Total comprehensive income	55,972	52,651	214,074	76,174	53,751

.[3] In the fourth quarter of 2022, an immaterial classification change was made in connection with the presentation of revenues from certain transactions in the Cloud field to be presented net, instead of being presented gross. The first three quarters of 2022 are restated accordingly. Due to lack of materiality, the results of 2021 remain unchanged.

Seasonality – With regard to the results of the fourth quarter of 2022 compared with the corresponding quarter last year - the results were affected by the dates of the Jewish holidays, which fell this year in the third and fourth quarters while, in the corresponding period last year, they all fell in the third quarter. A as a result, the number of working hours in the quarter was about 8% lower compared with the corresponding quarter last year. For further details, see section 9 of the Chapter "Description of the corporation's business".

1.2.3. Summary of consolidated profit and loss results by segments of activity for 2022 compared with 2021 (NIS in thousands)

	For the year ended 31.12.22	For the year ended 31.12.21	Percentage change
Revenues according to activity segment:			
Information technology solutions and services , consulting and management in Israel(1)	2,508,477	2,434,298	3%
Information technology solutions and services in the United States(2)	434,901	357,081	21.8%
Sales, marketing and support of software products	271,029	271,287	(0.1%)
Cloud infrastructures and computing	1,427,416	1,238,140	15.3%
Training and implementation	211,958	189,903	11.6%
Adjustments between segments	(181,092)	(130,561)	
Total revenues	**4,672,689**	**4,360,148**	**7.2%**
Operating profit			
Information technology solutions and services , consulting and management in Israel(1)	180,359	186,776	(3.4%)
Information technology solutions and services in the United States(2)	60,228	41,144	46.4%
Sales, marketing and support of software products	24,200	25,316	(4.4%)
Cloud infrastructures and computing	76,607	61,727	24.1%
Training and implementation	24,883	17,870	39.2%
Adjustments between segments	(15,789)	(3,441)	
Operating profit	**350,488**	**329,392**	**6.4%**

	31.12.2022 in percentages	**31.12.2021** in percentages
Rate of operating profit:		
Information technology solutions and services , consulting and management in Israel(1)	7.2%	7.7%
Information technology solutions and services in the United States(2)	13.8%	11.5%
Sales, marketing and support of software products	8.9%	9.3%
Cloud infrastructures and computing	5.4%	5%
Training and implementation	11.7%	9.4%
Rate of operating profit in %	**7.5%**	**7.6%**

(1) Including immaterial activity in Europe
(2) Including activity in Canada

	31.12.2022 in percentages	31.12.2021 in percentages
Rate of revenue according to segment of activity:		
Information technology solutions and services , consulting and management in Israel(1)	51.7%	54.2%
Information technology solutions and services in the United States(2)	9%	8%
Sales, marketing and support of software products	5.6%	6%
Cloud infrastructures and computing	29.4%	27.6%
Training and implementation	4.4%	4.2%
Total revenues in %	**100%**	**100%**

	31.12.2022 in percentages	31.12.2021 in percentages
Rate of contribution to operating profit according to segments of activity:		
Information technology solutions and services , consulting and management in Israel(1)	49.2%	56.1%
Information technology solutions and services in the United States(2)	16.4%	12.4%
Sales, marketing and support of software products	6.6%	7.6%
Cloud infrastructures and computing	20.9%	18.5%
Training and implementation	6.8%	5.4%
Total operating profit in %	**100%**	**100%**

	For the year ended 31.12.22	For the year ended 31.12.21	Percentage change
Geographic information:			
Revenues:			
Revenues from customers in Israel	4,352,994	4,084,753	6.6%
Revenues from customers in the United States	434,901	357,081	21.8%
Revenues from customers in Europe	65,886	48,875	34.8%
Adjustments between segments	(181,092)	(130,561)	
Total revenues	**4,672,689**	**4,360,148**	**7.2%**

Operating profit			
Operating profit from customers in Israel	300,951	286,495	5%
Operating profit from customers in the United States	60,228	41,144	46.4%
Operating profit from customers in Europe	5,098	5,194	(1.8%)
Adjustments between segments	(15,789)	(3,441)	
Total operating profit	**350,488**	**329,392**	**6.4%**

(1) Including immaterial activity in Europe

(2) Including activity in Canada

	For the year ended 31.12.22	For the year ended 31.12.21
	Percentage	Percentage
Rate of revenues on a geographical basis:		
Revenues from customers in Israel	89.7%	90.9%
Revenues from customers in the United States	9%	8%
Revenues from customers in Europe	1.4%	1.1%
Total revenues in %	**100%**	**100%**
Rate of operating profit on a geographical basis:		
Rate of operating profit in Israel	6.9%	7%
Rate of operating profit in the United States	13.8%	11.5%
Rate of operating profit in Europe	7.7%	10.6%
Rate of operating profit in %	**7.5%**	**7.6%**
Rate of contribution to operating profit on a geographical basis:		
Operating profit in Israel	82.2%	86%
Operating profit in the United States	16.4%	12.4%
Operating profit in Europe	1.4%	1.6%
Total operating profit	**100%**	**100%**

1.2.4. Analysis of results of activity by segments of activity for 2022 compared with 2021

Information technology solutions and services, consulting and management in Israel

Revenues

Total revenues from Information technology solutions and services, consulting and management in Israel amounted to NIS 2,508.5 million in 2022, compared with NIS 2,434.3 million NIS in 2021, an increase of 3%.

Operating profit

The operating profit from Information technology solutions and services, consulting and management in Israel amounted to NIS 180.4 million (7.2% of the segment's revenues) in 2022, compared with NIS 186.8 million in 2021 (7.7% of the segment's revenues), a decrease of 3.4%.

The increase in revenues in the period, and the changes in the operating profit and rate of the operating profit as detailed below, compared with the corresponding period last year reflect the derecognition of the consolidation of Infinity, whose rate of profit was relatively high, commencing the second quarter of 2022, alongside an increase in the scope of activity in the other segments of activity and a partial increase in operating expenses, which were saved during the corona period (such as fuel and travel).

Canceling the effect of the termination of the Infinity merger as aforesaid, in 2022, the Company recorded "organic growth" in this segment in revenues and operating profit at a rate of 7.8% and 7.4%, respectively.

Information technology solutions and services in the United States (US$ in millions)

	For the year ended 31.12.22	For the year ended 31.12.21	Percentage change
Revenues	129.4	110.6	16.9%
Operating profit	17.9	12.7	40.9%
Rate of profit	13.8%	11.5%	

Revenues

Revenues from the Information technology solutions and services segment in the United States for the period amounted to US$ 129.4 million, compared with US$ 110.6 million in the corresponding period last year, an increase of 16.9% in dollar terms. The results reported in NIS grew at a higher rate, as they were additionally impacted by the increase in the US dollar exchange rate during the period.

Operating profit

Operating profit from the Information technology solutions and services segment in the United States during the period amounted to US$ 17.9 million (13.8% of the segment's revenues), compared with US$ 12.7 million (11.5% of the segment's revenues) in the corresponding period last year, an increase of 40.9% in dollar terms (As mentioned, the results reported in NIS grew at a higher rate, since they were additionally impacted by the increase in the US dollar exchange rate during the period).
The significant growth in revenues, operating profit and the rate of profitability rate in the segment, compared to the corresponding period last year, is mainly due to an increase in the scope of activity, which was accompanied by a higher utilization rate of the employees.

Sales, marketing and support of software products

Revenues

Revenues from the sales, marketing and support segment for software products in the period amounted to NIS 271 million, compared with a similar amount (NIS 271.3 million) in the corresponding period last year.

Operating profit

Operating profit from the software product sales, marketing and support segment in the period amounted to NIS 24.2 million (8.9% of the segment's revenues), compared with NIS 25.3 million (9.3% of the segment's revenues) in the corresponding period last year, a decrease of 4.4%.
The decrease in operating profit and rate of operating profitability of the segment, compared with the corresponding period last year, are mainly due to the decrease in sales margins which result, among other things, from the mix of products sold in the period.

Cloud infrastructure and computing
Revenues
Revenues from the Cloud infrastructure and computing segment during the period amounted to NIS 1,427.4 million, compared to NIS 1,238.1 million in the corresponding period last year, an increase of 15.3%.

Operating profit
The operating profit from the Cloud infrastructure and computing segment in the period amounted to NIS 76.6 million (5.4% of the segment's revenues), compared with NIS 61.7 million (5% of the segment's revenues) in the corresponding period last year, an increase of 24.1% .
The increase in revenues and operating profit in the period was due to a significant increase in the scope of activity, with an emphasis on the Cloud infrastructure field and initial consolidation of the results of RDT's activities (for details, see note 3f to the financial statements).

Training and implementation
Revenues
Revenues from the Training and implementation segment during the period amounted to NIS 211.9 million, compared with NIS 189.9 million in the corresponding period last year, an increase of 11.6%.

Operating profit
Operating profit from the Training and implementation segment in the period amounted to NIS 24.9 million (11.7% of the segment's revenues), compared with a profit of NIS 17.9 million (9.4% of the segment's revenues) in the corresponding period last year, an increase of 39.2 %.
The increase in revenues, profit and the rate of operating profit, in relation to the corresponding period last year, is due to an increase in the scope of the training activity at the same time as an increase in operational efficiency.

1.2.5. Commitments and special events

Distribution of dividend

Date of distribution	Dividend rate (in agorot)	Amount of dividend (NIS millions)
12.04.22	65	40.9
23.06.22	71	44.6
*28.08.22	261	164.2
04.12.22	55	34.6
Total for 2022	**452**	**284.3**
Total for 2021	234	146.5
Change in %	**93.2%**	**94.1%**

*Includes a special dividend amounting to NIS 121.5 million in respect of the net capital gain from the realization of an investment in Infinity.

The Company's dividend distribution policy is a dividend distribution of up to 75% of the net annual profit attributable to the shareholders. The dividend will be distributed once per quarter subject to the distribution tests in the law, which are examined by the Board of Directors at any relevant time.
See note 17e to the financial statements.
In the past five years (2018-2022), the Company distributed a total of NIS 773 million in dividends to its shareholders.

Rating

On December 4, 2022, Midroog confirmed an Aa3 issuer rating with a stable outlook for the Company.

The Company has a non-marketable commercial paper rating ("NAAM") None/NOO P-1.il from December 4, 2022 and a stable Aa3 il rating for Series B debentures from December 4, 2022

Purchase of directors and officers insurance policy

See Regulation 29 of Chapter D of the Periodic Report - additional details about the corporation.

Approval of the renewal of the contract with Mr. Moti Gutman, the CEO of the Company, and the update of the terms of his tenure and employment, including the capital remuneration mechanism, as of January 1, 2023.

The Remuneration Committee on December 21, 2022, followed by the Board of Directors on December 28, 2022, approved the renewal of the Company's engagement with the Company's CEO, Mr. Moti Gutman, in a new employment agreement for a period of 5 years, from January 1, 2023 to December 31, 2027 (after the General Meeting did not approve the terms of engagement with the CEO in the aforementioned new agreement). According to the new agreement, on February 1, 2023, the Company allocated to the CEO, for nil consideration, 375,000 restricted shares (RS). For further details, see note 18b (f) to the consolidated financial statements.

Purchase of directors and officers insurance policy

See Regulation 29 of Chapter D of the Periodic Report – Additional details on the corporation.

Approval of updated remuneration policy and adjustment of the CEO's bonus ceiling accordingly

On April 3, 2022, the Remuneration Committee, followed by the Board of Directors, approved the Company's updated remuneration policy and the adjustment of the CEO's annual bonus in accordingly (this, after the General Meeting did not approve the updated policy and the adjustment of the ceiling of the annual bonus for the aforementioned CEO). For further details, see Immediate Report dated April 3, 2022 (ref. 2022-01-042259).

Renewal of the employment agreement with the CEO of the Company

On December 28, 2022, the Company entered into a new employment agreement with the Company's CEO, Mr. Moti Gutman, for a period of 5 years, from January 1, 2023 to December 31, 2027. According to the new agreement, the Company allocated to the CEO, on February 1, 2023, for nil compensation, 375,000 restricted shares (RS). For further details, see note 16(d) to the consolidated financial statements.

1.3. Financial position, liquidity and sources of financing (NIS in thousands)

Analysis of financial position as of December 31, 2022 and December 31, 2021

Balances of liquid assets and financial indices

	As of 31.12.2022	As of 31.12.2021	Change
Cash and cash equivalents	839,313	534,132	305,181
Short-term credit	(521,287)	(484,644)	(36,955)
Long-term credit	(699,873)	(424,112)	(275,761)
"Net" debt – short-term and long-term credit, net of cash and cash equivalents	(381,847)	(374,624)	(7,223)
Total balance sheet	4,002,776	3,438,584	564,192
Rate of "net" debt to balance sheet	9.5%	10.9%	
Current ratio (including liabilities in respect of lease)	1.21	1.14	
Balance of retained earnings	561,777	502,460	59,317
Total equity	964,875	878,054	86,821
Rate of equity to balance sheet	24.1%	25.5%	

Condensed consolidated statements of financial position (NIS in thousands)

	As of 31.12.2022	As of 31.12.2021	Change
Cash and cash equivalents	839,313	534,132	305,181
Trade receivable and unbilled receivables, net	1,481,761	1,396,973	84,788
Inventories	118,326	62,570	55,756
All other current assets	140,091	145,906	(5,815)
Total current assets	**2,579,491**	**2,139,581**	**439,910**
Goodwill	898,516	841,917	56,599
Intangible assets	99,256	107,843	(8,587)
All other non-current assets	425,513	349,243	76,270
Total non-current assets	**1,423,285**	**1,299,003**	**124,282**
Total assets	**4,002,776**	**3,438,584**	**564,192**
Short-term bank credit and other service providers	521,287	484,644	36,643
Trade payables	620,609	534,192	86,417
Employees	407,309	382,740	24,569
Deferred income	286,172	255,332	30,840
All other current liabilities	290,425	220,177	70,248
Total current liabilities	**2,125,802**	**1,877,085**	**248,717**
Liabilities to banking corporations and other service providers	699,873	424,112	275,761
Deferred income	30,860	54,021	(23,161)
All other non-current liabilities	181,366	205,312	(23,946)
Total non-current liabilities	**912,099**	**683,445**	**228,654**
Capital attributable to Shareholders of the Company	916,409	825,012	91,397
Non-controlling interests	48,466	53,042	(4,576)
Total	**4,002,776**	**3,438,584**	**564,192**

The (net) increase in current assets during 2022 is mainly due to an increase in the cash and cash equivalents section (NIS 305.2 million) as a result of a positive and strong cash flow from current activities during the period. In addition, an increase was recorded in the item, customers (NIS 84.8 million) and an increase in the item, inventories (NIS 55.8 million), mainly due to an increase in the scope of activity in the Cloud and computing infrastructure segment, including in respect of the initial consolidation of RDT.

The increase in current liabilities is mainly due to an increase in the items, trade payables (NIS 86.4 million), and short-term deferred income (NIS 30.8 million), as a result of an increase in the Company's level of activity, as well as an increase in liabilities to banking corporations and other short-term credit providers (NIS 36.6 million).

The increase in non-current liabilities is due to an increase in liabilities to banking corporations and other long-term credit providers (NIS 275.7 million) which is mostly due to issues of Series B debentures in the second half of the year which were used, inter alia, for the repayment of short-term variable interest credit, and the repayment of bank loans that have reached their maturity date.

Condensed Statements of cash flow (NIS in thousands)

	For the year ended 31.12.2022	For the year ended 31.12.2021
Net cash provided by operating activities:		
Net income	354,481	218,748
Adjustments to the profit and loss items	148,550	255,639
Changes in asset and liability items	(14,559)	(183,864)
Cash paid and received for interest and taxes	(101,081)	(71,303)
Net cash provided by operating activities	**387,391**	**219,220**
Net cash provided by investing activities:		
Purchase of property, plant and equipment	(38,757)	(35,080)
Acquisition of companies and activities	(41,394)	(21,884)
Disposal of subsidiary that was derecognized, net of tax	115,341	-
Others (net)	1,244	3,786
Net cash provided by (used in) investing activities	**36,434**	**(53,178)**
Net cash used in financing activities		
Receipt (repayment) of credit, net	(167,600)	21,303
Dividends paid	(284,275)	(146,471)
Repayment of capital lease obligation	(107,135)	(91,137)
Repayment of liabilities in respect of business combinations	(3,132)	(5,937)
Dividend paid to non-controlling interests	(45,368)	(36,180)
Liability in respect of options to non-controlling interests	(3,359)	(5,376)
Receipt in respect of issue of debentures to the public	471,476	-
Net cash used in financing activities	**(139,393)**	**(263,798)**

Cash flows from operating activities

In 2022, the Company recorded a positive cash flow from operating activities amounting to NIS 387 million compared with a positive cash flow from operating activities amounting to NIS 219 million in the corresponding period last year.

In the past 5 years (2018-2022), the Company generated a positive flow from operating activities amounting to cumulatively NIS 1,529 thousand.

Cash flows from investing activities

Cash flow resulting from investing activities for the Company in 2022 amounted to NIS 36.4 million (compared with a negative flow used for investing activities amounting to NIS 53.1 million in the corresponding period last year) including a total of NIS 115.3 million for the sale of the investment in Infinity (net of the payment of the related tax), which was partially offset by net cash used for the purchase of RDT amounting to NIS 41.4 million and the purchase of property, plant and equipment amounting to NIS 38.7 million.

Cash flows used in financing activities

Cash flows used in financing operations in 2022 amounting to NIS 139.4 million (NIS 263.8 million in the corresponding period last year) is mainly attributable to the payment of a dividend amounting to NIS 284.3 million (NIS 146.5 million in the corresponding period last year) and a net repayment of loans from banking institutions amounting to NIS 167.6 million (compared with a net borrowing of loans from banking institutions amounting to NIS 21.3 million in the corresponding period last year), which was mainly offset by receipts for the issue and expansion of Series B debentures amounting to NIS 471.5 million (net).

Average short-term credit (NIS in thousands)

	As of 31.12.2022	AS of 31.12.2021
Trade receivables	1,309,576	1,200,000
Trade payables	527,054	480,000

The Company finances its operating activities (including the difference between the average credit to customers and the average credit to suppliers) from the cash flow from operating activities, shareholders' equity and taking credit from financial institutions and debentures.

Disclosure regarding a forecast Statement of cash flows report, pursuant to Regulation 10(b)(1)(d) of the Securities Regulations (Periodic and Immediate Reports):

As of December 31, 2022 in the Company's stand-alone statements, there is a deficiency in working capital. In view of this, the Board of Directors of the Company reviewed the Company's financial indicators, its compliance with applicable financial standards and the Company's existing and expected cash sources and needs. In the assessment of the Board of Directors of the Company, the deficiency in working capital in the stand-alone report does not indicate a liquidity problem. In light of the above, the Company is not required to publish a forecast statement of cash flows.

Condensed statements of changes in equity (NIS in thousands)

	For the year ended 31.12.2022	For the year ended 31.12.2021
Opening balance	878,054	824,912
Net income	354,481	218,748
Dividend paid	(284,275)	(146,471)
Purchase of rights and dividend to non-controlling interests (net)	(25,972)	(19,424)
Translation adjustments	35,467	(12,031)
Other – net	7,120	12,320
Closing balance	**964,875**	**878,054**

2. Exposure to market risks and ways of managing them

In relation to the market risks to which the Company is exposed, as well as in relation to the Company's policy in managing market risks - see note 20 to the financial statements.

3. Aspects of corporate governance

3.1. Donations policy

The Company works for the community through monetary donations, donations of computer equipment and development of systems, training courses, participation in expenses and use of infrastructure.

In addition, the Company has set itself the goal, in the field of social responsibility, to create a channel of influence with which the Company will be identified and which will include long-term projects, some of which will be an opportunity for partnership and involvement of employees with an emphasis on population sectors in need and youth at risk.

This year, the Company donated about NIS 269 thousand in cash.

The Company does not have a fixed policy regarding donations, each request for a donation is considered individually and in accordance with the Company's donation procedure. The Company has no commitment to provide donations in the future.

3.2. Directors with accounting and financial expertise

See Regulation 26 of Part D of the Periodic Report (Additional details about the corporation) and the Corporate Governance Questionnaire attached to Part D of the Periodic Report.

3.3. Independent directors

See Regulation 26 of Part D of the Periodic Report (Additional details on the corporation) and the Corporate Governance Questionnaire attached to Part D of the Periodic Report.

3.4. Disclosure regarding the Internal Auditor in the corporation

1) Dana Gutman Ehrlich, C.P.A.
2) Date of commencing tenure – March 11, 2020

   The Internal Auditor was appointed pursuant to the recommendation of the Audit Committee and a resolution of the Board of Directors of the Company based on her qualifications as detailed below[4].
3) Qualifications of the Internal Auditor

   The internal auditor is a certified public accountant, a partner in BDO Israel, who serves as an internal auditor in a number of organizations. She is a member of the Association of Internal Auditors in Israel.
4) Officer in charge of the Internal Auditor

   The officer in charge of the Internal Auditor in the Company is the CEO of the Company, Mr. Moti Gutman.

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[4] On December 28, 2022, Dana Gutman, the Internal Auditor, announced the termination of her tenure as a result of the BDO accounting firm competing for the tenure as Independent Auditor for the Group in accordance with the Independence Rules applicable to Independent Auditors.

On January 29, 2023, the Board of Directors, after accepting the recommendation of the Audit Committee of January 26, 2023, approved the appointment of Mr. Israel Gevirtz from the Fahn Kanne accounting firm as the Company's Internal Auditor.

5) Audit plan

The annual work program is submitted by the Internal Auditor and approved by the Audit Committee.
The annual audit plan is derived from the multi-year audit plan. The multi-year audit plan was derived from a risk survey conducted by the Company's Internal Auditor.
The Audit Committee is involved in determining the multi-year plan and the Internal Auditor has the discretion to deviate from it in an immaterial way. To the extent that there is a deviation other than as stated, the matter is brought up for discussion in the Audit Committee.
The annual planning of the audit tasks, the determination of priorities and the frequency of the audit are influenced by the following factors:

- The management, operational and/or economic significance of the issue in terms of internal control and achieving the organization's goals;
- The exposure to risks of activities, areas and actions according to a risk survey conducted by the Internal Auditor;
- The probability of the existence of operational, management and administrative deficiencies;
- Findings of previous audits;
- Subjects in which an audit is requested by the managing institutions and/or parties outside the organization (Certified Public Accountant);
- Subjects required by law, according to internal or external provisions of a procedure;
- The existence of other relevant controls in the organization and the information available on their effectiveness and/or weaknesses;
- The need to maintain periodic recurrence.

The audit plan also refers to significant subsidiaries, as well as to investee corporations abroad.

6) Scope of the transaction

	For the year ended 31.12.2022	For the year ended 31.12.2021
Remuneration (NIS in thousands)	368	521

According to the Board of Directors of the Company, the scope of the Internal Auditor's work and work program in 2022 are reasonable in the circumstances and have the potential to fulfill the goals of the Company's internal audit.

7) Professional standards

To the best of the Company's knowledge, the Internal Auditor conducts the internal audit in accordance with the generally accepted professional standards as stated in section 4 (b) of the Internal Audit Law, 1992.
The Internal Auditor was given free access as stated in section 9 of the Internal Audit Law, 1992, including constant and unmediated access to the corporation's information systems, including financial data and a visit to the US subsidiary.
In order to determine that the auditor met the requirements established above, the Board of Directors relied on the reports of the Internal Auditor regarding his compliance with the professional standards.
To the best of the Company's knowledge, the nature and continuity of the activity and the work program of the internal auditor are reasonable under the circumstances and serve to fulfill the goals of the internal audit in the corporation.

8) The assessment of the Board of Directors the activity of the Internal Auditor's – remuneration

For details regarding the method of internal remuneration and its scope, see section 6 above.
In the opinion of the Board of Directors, the remuneration of the Internal Auditor does not affect the exercise of his professional judgment, this, inter alia, taking into account the Board of Directors' impression of the manner in which he performs the internal audit work in the Company, and the degree of detail, accuracy and depth of the reports of the audit findings submitted by him to date, and also because that the auditor has additional clients and additional activities and is not dependent on compensation from the Company.

3.5. Disclosure regarding auditors' fees

The External Auditors of the corporation: Kost Forer Gabbay & Kasierer

Below is a breakdown of the fees paid to the External Auditors (NIS in thousands):

	2022	2021
Remuneration for audit services, related services and consulting and tax services related to the audit	3,712	3,509

The auditor's fee was approved by the Company's Board of Directors.

3.6. The work of the Board of Directors and its committees

1) Internal enforcement program in the Company

   The Company has an internal enforcement program in the field of securities laws. The plan is reviewed on an regular basis, formulated on the basis of the Company's unique characteristics and its activities and in accordance with the criteria for an effective enforcement plan published by the Securities Authority, and updated regularly pursuant to changes in the law and in accordance with the Company's characteristics, needs and activity.

   The Company's Board of Directors has appointed the Company's Chief Financial Officer, Mr. Nevo Brenner, to be in charge of the Company's internal enforcement, including ensuring efficient and effective implementation of the plan, and it resolved that the Company's Audit Committee will serve as a dedicated representative of the Board of Directors, for compliance and enforcement matters.

   At the date of the report, the enforcement plan includes nine procedures: a procedure for an enforcement system, a procedure for an audit committee, a procedure for a committee for examining financial statements, a procedure for reporting, a procedure for appointing officers and approving their remuneration, a procedure for entering into transactions with interested parties and preventing conflicts of interest and personal interest, a procedure for prohibiting the use of insider information, a procedure for communication with the Securities Authority and capital market factors and a procedure for handling complaints from Company employees about deficiencies.

   The purpose of the abovementioned procedures is to ensure the implementation of the provisions of the law and the compliance with periodic control processes on the procedures, while regulating the work processes as part of the implementation of an effective enforcement plan in the Company.

2) For further details regarding the Board of directors and its committees - see the Corporate Governance Questionnaire attached in part D of the Periodic Report.

4. Disclosure provisions in connection with the corporation's financial reporting

4.1. Critical accounting estimates

The balance of goodwill, as included in the Company's financial statements, is material to the Company's total assets. The goodwill represents the excess cost of the investment over the total balance sheet value in subsidiaries that have been acquired by the Group.

In accordance with generally accepted accounting principles, the Company annually examines for impairment.

According to the valuations carried out by the Company this year, it appears that there is no need to amortize the value of goodwill.

See also Regulation 8b (i) to Part D of the Report (Additional details about the corporation) regarding the valuation in respect of the Information technology solutions and services, consulting and management segment in Israel (which was defined as very material) for the purpose of examining the related impairment of goodwill in the financial statements. and in respect of the Information technology solutions and services segment in the United States (which was defined as material).

See also note 9 to the financial statements.

4.2. Events after the balance sheet date

See note 25 to the financial statements.

March 12, 2023

Guy Bernstein Chairman of the Board of Directors	Moti Gutman Chief Executive Officer

Appendix A – Details with regard to notes issued by the Company and held by the public at the date of the Report

1) The following are details regarding the Series B debentures – NIS in thousands

Disclosure item	Details regarding the Series B debentures (2)
Date of issue:	Initial issue on September 18, 2022; Series expanded on December 4, 2022
Total nominal value material the date of issue[1]:	295,249 on initial issue and 180,366 on expansion of series
Balance of nominal value at December 31, 2022:	475,615
The balance of the nominal value at the date of the Report when revalued according to the terms of linkage:	The series in unlinked
Value in the financial statements at December 31, 2022 (amortized cost according to the effective interest method):	475,181
Interest accrued at December 31, 2022:	4,291
Stock exchange value at December 31, 2022:	475,615
Type of interest:	Fixed interest at a rate of 4.1% per annum; It should be noted that the trust deed in respect of the Series B debentures attached to the offer report (the Trust Deed) provided mechanisms for adjustment of a change in the annual interest in respect of the Series B debentures, this, if there is non-compliance with the financial covenants or if there is a decrease in the rating of the Series B debentures pursuant to the said adjustment mechanisms (cumulatively). The overall rate of interest increments will not exceed 1%. For details, see sections 5.8 and 5.8 to the Trust Deed.
Payment dates of principal:	The principal of the Series B debentures shall be due for repayment in fourteen (14) six-monthly installments, made up of thirteen equal payments - each payment being 7.14% of the principal and the last payment being 7.18%, commencing August 1, 2023 through February 1, 2030.
Dates of payment of interest:	The interest in respect of the Series B debentures shall be paid in six-monthly installments, to be paid on February 1 and August 1, commencing February 1, 2023 through February 1, 2030.
Linkage base of principal and interest:	The Series B debentures are unlinked (principal and interest) to any linkage base.
Is there a right of conversion?	No
Early repayment or forced conversion of the debentures:	The Company shall be entitled of its own initiative to make the debentures available for early repayment, all in accordance with the provisions of section 6.2 of the Trust Deed.
Guarantee to pay the Company's liabilities according to the Trust Deed:	None

Disclosure item	Details regarding the Series B debentures (2)
Does the date of the Company Report comply with all of the conditions and undertakings according to the Trust Deed?	Yes
As of the date of the report and during the period of the report, were the conditions that constitute grounds for making the debentures available immediate repayment met?	No
Is the Company required by the trustee to perform various actions, including convening meetings of the debenture holders?	No
Details of securities / liens:	None

2) Details regarding the trustee for the Series debentures

Name of trustee:	Reznick Paz Trustees Ltd.
Name of official responsible for the debentures:	Shani Krasnoshansky
Contact details:	14. Yad Harutzim, Tel Aviv Tel: 03-689200 Fax: 03-06389222 e-mail: Shani@rpn.co.il

3) Details regarding the rating of the Series B debentures

Name of rating company at the date of the Report:	Midroog Ltd. ("**Midroog**")
Rating at the date of issue:	Aa3 with a stable outlook
Rating at the date of the Report:	Unchanged For the up-to-date rating, see Immediate Report published by the Company on 04.12.2022 (Ref. 2022-01-146605)

(1) On September 14, 2022, the Company published a shelf offer report (ref.: 2022-01-117502) ("the offer report"), in which the Company made issued in an initial public offering a total of NIS 295,249 thousand nominal value of Series B debentures of the Company. In addition, on December 4, 2022, the Company issued Series B debentures) by way of an expansion of the series, for a net amount of NIS 178 million.

(2) As of the date of the Report, in accordance with the provisions of section 10(b)(13)(a) of the Securities Regulations, the Company considers the Series B debentures to be a significant series.

4) Financial covenants – Series B debentures

The table below sets forth the various standards to which the Company has undertaken vis-à-vis the debenture holders and the result of their calculation as of December 31, 2022, as follows:

Security	Balance of nominal value of the security in circulation as of 31.12.2022	Balance of nominal value of the security in circulation immediately prior to the date of the Report	Financial covenant	Actual covenant as of 31.12.2022
Series B debenture	475, 615	475, 615	Ratio of consolidated net financial debt (as defined in the Trust Deed) to total balance sheet must not exceed 45%	9.6%
Series B debenture	475, 615	475, 615	Ratio of consolidated net financial debt (as defined in the Trust Deed to adjusted EBITDA (as defined in the Tt Deed) must not exceed 5	0.76
Series B debenture	475, 615	475, 615	Shareholders' equity (as defined in the Trust Deed) is minimal, must be not less than NIS 275,000 thousand	964,875

CHAPTER C

Consolidated Financial Statements Year Ended 31.12.2022

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AUDITORS' REPORT

To the Shareholders of

MATRIX IT LTD.

Regarding the Audit of Components of Internal Control over Financial Reporting Pursuant to Section 9b(c) to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the components of internal control over financial reporting of Matrix IT Ltd. and its subsidiaries (collectively, "the Company") as of December 31, 2022. Control components were determined as explained in the following paragraph. The Company's board of directors and management are responsible for maintaining effective internal control over financial reporting, and for their assessment of the effectiveness of the components of internal control over financial reporting included in the accompanying periodic report for said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audit.

We did not examine the Components of Internal Control of certain subsidiaries, whose assets and revenues included in consolidation constitute approximately 9.6% and 9.9% accordingly as of December 31, 2022 and for the year ended December 31, 2022. The Components of Internal Control of these companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to Components of Internal Control included for those companies, is based on the reports of the other auditors.

The components of internal control over financial reporting audited by us were determined in conformity with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting", as amended, ("Auditing Standard (Israel) 911"). These components consist of: (1) entity-level controls, including financial reporting preparation and close process controls and information technology general controls ("ITGCs"); (2) sale process controls; (3) payroll process controls; (4) impairment of intangible assets process controls; (5) purchase price allocation process controls (collectively, "the audited control components").

We conducted our audit in accordance with Auditing Standard (Israel) 911. That Standard requires that we plan and perform the audit to identify the audited control components and obtain reasonable assurance about whether these control components have been effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists regarding the audited control components and testing and evaluating the design and operating effectiveness of the audited control components based on the assessed risk. Our audit of these control components also included performing such other procedures as we considered necessary in the circumstances. Our audit only addressed the audited control components, as opposed to internal control over all the material processes in connection with financial reporting and therefore, our opinion addresses solely the audited control components. Moreover, our audit did not address any reciprocal effects between the audited control components and unaudited ones and accordingly, our opinion does not take into account any such possible effects. We believe that our audit provides a reasonable basis for our opinion within the context described above.

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Because of its inherent limitations, internal control over financial reporting as a whole, and specifically the components therein, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company effectively maintained, in all material respects, the audited control components as of December 31, 2022.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022 and our report dated March 12, 2023 expressed an unqualified opinion thereon based upon our audit and other auditors` reports.

Tel Aviv, Israel	KOST FORER GABBAY & KASIERER
March 12, 2023	A Member of Ernst & Young Global

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AUDITORS' REPORT

To the Shareholders of

MATRIX IT LTD.

We have audited the accompanying consolidated statements of the financial position of Matrix IT Ltd. ("the Company") as of December 31, 2022 and 2021, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2022. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiary, whose assets included in consolidation constitute approximately9.6% and 14% of total consolidated assets as of December 31, 2022, and whose revenues included in consolidation constitute approximately 9.9%, 11%, and 1.4% of total consolidated revenues for each of the three year period ended December 31, 2022, 2021 and 2020 accordingly. The financial statements of this company were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2022 and 2021, and the results of their operations, changes in their equity and cash flows for each of the three years in the period ended December 31, 2022, in conformity with International Financial Reporting Standards ("IFRS") and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

We have also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting", as amended, the Company's components of internal control over financial reporting as of December 31, 2022 and our report dated March 12, 2023 included an unqualified opinion on the effective maintenance of those components.

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Key matters in the audit

Key matters in the audit listed below are the matters that were communicated, or were required to be communicated, to the company's board of directors and which, according to our professional judgment, were most significant in the audit of the consolidated financial statements for the current period. These matters include, among others, any matter which: (1) relates, or may relate, to material sections or disclosures in the financial statements, and (2) our judgment regarding it was particularly challenging, subjective or complex. These matters are answered as part of our audit and formation of our opinion on the consolidated financial statements as a whole. The communication of these matters below does not change our opinion on the consolidated financial statements as a whole and we do not use it to give a separate opinion on these matters or on the sections or disclosures to which they refer.

Examination of goodwill impairment

As described in note 9 to the consolidated financial statements, the balance of goodwill in the company's books is in the amount of NIS 898,516 thousand as of December 31, 2022. The company's management examines goodwill impairment once a year, as of December 31, or more often, if events or changes in circumstances indicate this that there is an impairment. Examining the impairment of goodwill is determined by examining the recoverable amount of the cash-generating unit to which the goodwill was allocated. When the recoverable amount is lower than the balance in the financial statements, an impairment loss attributed primarily to goodwill is recognized.
The process of examining the decline in value of a cash-generating unit to which goodwill has been assigned, is based on significant estimates involving uncertainty and on the subjective evaluations of management and those charged with corporate governance. A change in these estimates or assessments may have a material effect on the balance of goodwill in the financial statements.
The matter was identified as a key matter in the audit because it refers to material sections and disclosures in the financial statements.

The audit procedures carried out in response to the key matter in the audit

The main procedures we performed in connection with this key matter as part of our audit are:
1. Examination of the assessments performed by the group's valuer, including a sensitivity examination.
2. Examining and evaluating the competence, abilities and objectivity of the group's valuer.
3. Checking the completeness and accuracy of the basic data used in the model.
4. Assessing the plausibility of the company's conclusions considering the main assumptions used by it, such as projected cash flows, including growth rates, discount rates and projected earnings before interest, depreciation, taxes and amortization (EBITDA).

Tel Aviv, Israel
March 12, 2023

KOST FORER GABBAY & KASIERER
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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31,	
		2022	2021
	Note	NIS in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	839,313	534,132
Trade receivables and unbilled receivables, net	5	1,481,761	1,396,973
Income tax receivables		27,341	29,148
Other account receivables	6	112,750	116,758
Inventories	7	118,326	62,570
		2,579,491	2,139,581
NON-CURRENT ASSETS:			
Investments and other loans	3e`	16,800	919
Long term prepaid expenses and trade receivables		39,287	33,912
Right-of-use assets	13	180,344	142,672
Property, plant and equipment	8	98,165	95,767
Goodwill	9	898,516	841,917
Intangible assets	9	99,256	107,843
Deferred taxes	15f`	90,917	75,973
		1,423,285	1,299,003
		4,002,776	**3,438,584**

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2022	December 31, 2021
		NIS in thousands	
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and others	20,10a`	471,454	484,644
Current maturities debenture	19	49,833	-
Current maturities lease liability	13	105,853	79,137
Trade payables	11	620,609	534,192
Income taxes payable		18,379	13,544
Other accounts payable	12	66,306	64,159
Employees and payroll accruals		407,309	382,740
Liabilities in respect of business combinations	3	6,774	2,199
Put options of non-controlling interests	3	93,113	61,138
Deferred revenues		286,172	255,332
		2,125,802	1,877,085
NON-CURRENT LIABILITIES:			
Loans from banks and others	20, 10a`	274,525	424,112
Debenture	19	425,348	-
Deferred revenues		30,860	54,021
Put options of non-controlling interests	3	7,432	51,282
Lease liabilities	13	75,755	65,658
Deferred taxes	15	72,531	61,007
Liabilities in respect of business combinations	3	17,378	8,343
Employee benefit liabilities	14	8,270	19,022
		912,099	683,445
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	17		
Share capital and capital reserves		354,632	322,552
Retained earnings		561,777	502,460
		916,409	825,012
Non-controlling interests		48,466	53,042
TOTAL EQUITY		964,875	878,054
		4,002,776	**3,438,584**

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

March 12, 2023			
Date of approval of the financial statements	Guy Bernstein Chairman of the Board	Moti Gutman Chief Executive Officer	Nevo Brenner Chief Financial Officer

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended December 31,		
		2022	2021	2020
	Note	NIS in thousands (except per share data)		
Revenues	21a`	4,672,689	4,360,148	3,854,041
Cost of revenues	21b`	4,000,682	3,729,745	3,291,050
Gross profit		672,007	630,403	562,991
Selling and marketing expenses	21c`	166,246	147,555	122,072
General and administrative expenses	21d`	155,273	153,456	151,786
Gain from realization of subsidiary		150,059	-	-
Operating income		500,547	329,392	289,133
Financial expenses	21e`	50,801	45,558	42,202
Financial income	21e`	5,020	360	-
Income before taxes on income		454,766	284,194	246,931
Taxes on income	15g`	100,285	65,446	56,081
Net income		354,481	218,748	190,850
Other comprehensive income (net of tax effect):				
Amounts that will not be reclassified subsequently to profit or loss:				
Actuarial gain (loss) from defined benefit plans		8,923	9,017	1,712
Amounts that will be, or, that have been reclassified to profit or loss, when specific conditions are met:				
Foreign currency translation adjustments of operations abroad		35,842	(12,031)	(21,316)
Change in Fair Value of hedge instrument for cash hedging		(375)	-	-
Total comprehensive income		**398,871**	**215,734**	**171,246**
Net income attributable to:				
Equity holders of the Company		334,669	195,341	172,596
Non-controlling interests		19,812	23,407	18,254
		354,481	**218,748**	**190,850**
Total comprehensive income attributable to:				
Equity holders of the Company		379,261	192,542	153,128
Non-controlling interests		19,610	23,192	18,118
		398,871	**215,734**	**171,246**
Net earnings per share attributable to equity holders of the Company (in NIS):	22			
Basic net income		5.32	3.13	2.78
Diluted net income		5.30	3.09	2.74

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to the Company's shareholders									
	Issued share capital	Share premium	Treasury shares	Retained earnings	Foreign currency translation reserve	Reserve-Transaction With a Former Controlling Shareholder	Reserve from share-based payment and liabilities in respect of options to NCI	Total	Non-controlling interests	Total equity
	NIS in thousands									
Balance as of January 1, 2022	67,703	301,445	(7,982)	502,460	(55,256)	10,186	6,456	825,012	53,042	878,054
Net income	-	-	-	334,669	-	-	-	334,669	19,812	354,481
Foreign currency translation reserve from operations abroad and Forex Hedging	-	-	-	-	35,669	-	-	35,669	(202)	35,467
Actuarial gain from defined benefit plans	-	-	-	8,923	-	-	-	8,923	-	8,923
Total other comprehensive gain (loss)	-	-	-	8,923	35,669	-	-	44,592	(202)	44,390
Total comprehensive income	-	-	-	343,592	35,669	-	-	379,261	19,610	398,871
Exercise of employee phantom options	299	4,449	-	-	-	-	(4,748)	-	-	-
Acquisition of non-controlling interests	-	-	-	-	-	-	(1,434)	(1,434)	-	(1,434)
Disposal of non-controlling interests	-	-	-	-	-	-	-	-	(2,713)	(2,713)
Transaction with non-controlling interests	-	-	-	-	-	-	(3,065)	(3,065)	3,065	-
Dividend paid	-	-	-	(284,275)	-	-	-	(284,275)	-	(284,275)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	(24,538)	(24,538)
Share-based payment	-	-	-	-	-	-	910	910	-	910
Balance as of December 31, 2022	**68,002**	**305,894**	**(7,982)**	**561,777**	**(19,587)**	**10,186**	**(1,881)**	**916,409**	**48, 466**	**964,875**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to the Company's shareholders									
	Issued share capital	Share premium	Treasury shares	Retained earnings	Foreign currency translation reserve	Reserve- Transaction With a Former Controlling Shareholder	Reserve from share-based payment and liabilities in respect of options to NCI	Total	Non-controlling interests	Total equity
	NIS in thousands									
Balance as of January 1, 2021	67,245	293,054	(7,982)	444,573	(43,440)	10,186	12,672	776,308	48,604	824,912
Net income	-	-	-	195,341	-	-	-	195,341	23,407	218,748
Foreign currency translation reserve from operations abroad	-	-	-	-	(11,816)	-	-	(11,816)	(215)	(12,031)
Actuarial gain from defined benefit plans	-	-	-	9,017	-	-	-	9,017	-	9,017
Total other comprehensive gain (loss)	-	-	-	9,017	(11,816)	-	-	(2,779)	(215)	(3,014)
Total comprehensive income	-	-	-	204,358	(11,816)	-	-	192,542	23,192	215,734
Exercise of employee phantom options	458	8,391	-	-	-	-	(8,849)	-	-	-
Acquisition of non-controlling interests	-	-	-	-	-	-	(670)	(670)	2,936	2,266
Dividend paid	-	-	-	(146,471)	-	-	-	(146,471)	-	(146,471)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	(21,690)	(21,690)
Share-based payment	-	-	-	-	-	-	3,303	3,303	-	3,303
Balance as of December 31, 2021	**67,703**	**301,445**	**(7,982)**	**502,460**	**(55,256)**	**10,186**	**6,456**	**825,012**	**53,042**	**878,054**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to the Company's shareholders									
	Issued share capital	Share premium	Treasury shares	Retained earnings	Foreign currency translation reserve	Reserve-Transaction With a Former Controlling Shareholder	Reserve from share-based payment and liabilities in respect of options to NCI	Total	Non-controlling interests	Total equity
	NIS in thousands									
Balance as of January 1, 2020	67,194	290,282	(7,982)	395,160	(22,260)	10,186	(35)	732,545	7,989	740,534
Net income	-	-	-	172,596	-	-	-	172,596	18,254	190,850
Foreign currency translation reserve	-	-	-	-	(21,180)	-	-	(21,180)	(136)	(21,316)
Actuarial gain from defined benefit plans	-	-	-	1,712	-	-	-	1,712	-	1,712
Total other comprehensive gain (loss)	-	-	-	1,712	(21,180)	-	-	(19,468)	(136)	(19,604)
Total comprehensive income	-	-	-	174,308	(21,180)	-	-	153,128	18,118	171,246
Exercise of employee phantom options	51	2,772	-	-	-	-	(2,823)	-	-	-
Acquisition of non-controlling interests	-	-	-	-	-	-	7,904	7,904	33,551	41,455
Dividend paid	-	-	-	(124,895)	-	-	-	(124,895)	-	(124,895)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	(11,054)	(11,054)
Share-based payment	-	-	-	-	-	-	7,626	7,626	-	7,626
Balance as of December 31, 2020	**67,245**	**293,054**	**(7,982)**	**444,573**	**(43,440)**	**10,186**	**12,672**	**776,308**	**48,604**	**824,912**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2022	2021	2020
	NIS in thousands		
Cash flows from operating activities:			
Net income	354,481	748,218	190,850
Adjustments to reconcile net income to net cash provided by operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	162,225	147,737	124,766
Taxes on income	100,285	65,445	56,081
Change in employee benefit liabilities	671	(3,276)	1,525
Other financial expenses, net	18,040	27,873	37,846
Revaluation of long-term loans from banks	(26)	(240)	62
Revaluation of Debenture	3,705	-	-
Revaluation of liabilities in respect of business combinations	741	298	(3,422)
Capital loss (gain) from sale of property, plant and equipment	(197)	(78)	257
Share-based payment	1,330	3,069	7,364
Gain from realization of Subsidiary	(150,059)		
Increase (decrease) in value of put options of non-controlling interests	12,159	14,811	3,771
	148,550	255,639	228,250
Changes in asset and liability items:			
Increase in trade receivables	(77,873)	(341,772)	121,895
Decrease (increase) in other accounts receivable and prepaid expenses	(7,898)	10,660	(4,310)
Decrease (increase) in inventories	(47,062)	14,996	(37,748)
Increase in trade payables	65,191	107,406	30,961
Increase in employee benefit liabilities, deferred revenues and other accounts payable	53,083	24,846	93,237
	(14,559)	(183,864)	204,035
Cash paid and received during the year for:			
Interest paid	(28,408)	(21,257)	(22,627)
Taxes paid	(91,991)	(76,251)	(91,472)
Taxes received	19,318	26,205	26,141
	(101,081)	(71,303)	(87,958)
Net cash provided by operating activities	387,391	219,220	535,177

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2022	2021	2020
	NIS in thousands		
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment	1,244	3,786	2,262
Purchase of property, plant and equipment	(38,757)	(35,080)	(36,440)
Purchase of intangible assets	-	-	(143)
Acquisition of initially consolidated subsidiaries (a)	(41,005)	(20,191)	(29,458)
Payment of initially consolidated subsidiary	(389)	(1,693)	-
Proceeds from Disposal of Subsidiary	143,641	-	-
Tax payment of Disposal of Subsidiary	(28,300)	-	-
Net cash provided by (used in) investing activities	36,434	(53,178)	(63,779)
Cash flows from financing activities:			
Change in short-term credit from banks and other credit providers, net	(24,441)	117,131	(101,997)
Receipts of long-term loans from banks and others	90,000	120,000	280,000
Repayment of long-term loans from banks and others	(233,159)	(215,828)	(197,111)
Dividend paid	(284,275)	(146,471)	(124,895)
Repayment of liabilities in respect of business combinations	(3,132)	(5,937)	(11,308)
Repayment of capital lease obligation	(107,135)	(91,137)	(75,554)
Dividend paid to non-controlling interests	(45,368)	(36,180)	(22,156)
Repayment of liabilities in respect of NCI Options	(5,376)	(5,376)	(10,377)
Proceeds from issuance of Debenture	471,476	-	-
Net cash provided by (used in) financing activities	(139,393)	(263,798)	(263,398)
Exchange rate differences on balances of cash and cash equivalents	20,749	(12,373)	(23,027)
Increase (Decrease) in cash and cash equivalents	305,181	(110,129)	184,973
Cash and cash equivalents at the beginning of the year	534,132	644,261	459,288
Cash and cash equivalents at the end of the year	**839,313**	**534,132**	**644,261**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31		
	2022	**2021**	**2020**
	NIS in thousands		
(a) Acquisition of initially consolidated subsidiaries:			
The subsidiaries' assets and liabilities at date of acquisition:			
Working capital (excluding cash and cash equivalents)	(1,831)	(2,550)	(18,527)
Right-of-use assets	-	-	(8,005)
Property, plant and equipment	(2,315)	(1,261)	(23,107)
Long term Deposits	(2)	(432)	-
Inventories	(8,694)	-	-
Deferred taxes	(2,363)	(202)	(3,696)
Goodwill	(36,322)	(23,537)	(46,431)
Intangible assets	(12,007)	(11,073)	(57,406)
Other short-term liabilities	4,801	561	36,500
Employee benefit liabilities	216	3,129	2,194
Deferred taxes	2,761	3,006	14,157
Liability to previous controlling shareholder	-	2,432	1,693
Liability of put options to non-controlling interests	-	3,053	61,238
Non-controlling interests	-	2,936	465
Long term loan	-	109	-
Lease liabilities	-	-	8,005
Liability in respect of business combinations	14,751	3,638	3,462
	(41,005)	**(20,191)**	**(29,458)**
(b) Significant non-cash transactions:			
Right-of-use asset recognized with corresponding lease liability	143,762	108,501	58,458
	143,762	**108,501**	**58,458**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2022	**2021**	**2020**
	NIS in thousands		
(c) Disposal of consolidated subsidiary:			
The subsidiary`s assets and liabilities at date of disposal:			
Working capital (excluding cash and cash equivalents)	(24,707)	-	-
Investment in Securities	16,745	-	-
Property, plant and equipment	2,615	-	-
Deferred taxes	223	-	-
Goodwill	1,470	-	-
Employee benefit liabilities	(51)	-	-
Non-controlling interests	(2,713)	-	-
Gain on disposal of Subsidiary	150,059	-	-
	143,641	**-**	**-**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

a. Matrix IT Ltd. ("the Company") was incorporated in Israel and began its business operations on September 12, 1989. The Company is considered an Israeli resident. The company is a public company, traded on Tel- Aviv stock Exchange. The Company's registered address is 3 Abba Even Boulevard, Herzliya, Israel. The controlling shareholder of the Company is Formula Systems (1985) Ltd. ("Formula Systems"), which is controlled by Asseco Poland S.A., a Polish public company, traded on the Warsaw Stock Exchange, which holds 25.6% of the share capital of Formula Systems. (see regulation 21(a) – in chapter Other company details).

The company operates in five operating segments as follows (see additional details in note 24g`):

1. Information Technologies (IT) Software solutions and services, Consulting &Management in Israel.
2. Information Technologies (IT) Software solutions and services in USA.
3. Software product sales, marketing and support.
4. Cloud infrastructure, and computer solutions.
5. Training and implementation.

b. Definitions:

In these financial statements:

The Company	- Matrix IT Ltd.
The Group	- The Company and its affiliate companies
Subsidiaries	- Companies that are controlled by the Company as defined in IFRS 10.
Associates	- Companies in which the Company has significant influence and that are not subsidiaries. The Company's investment therein is accounted for in the consolidated financial statements of the Company using the equity method.
Affiliates companies	- Subsidiaries and associates.
The parent company	- Formula Systems (1985) Ltd.
The ultimate parent company	- Asseco Poland S.A.
Interested parties and controlling shareholder	- As defined in the Israeli Securities Regulations (Annual Financial Statements), 2010.
Related parties	- As defined in IAS 24.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

1. Basis of preparation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Furthermore, the financial statements have been prepared in conformity with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

2. Measurement basis:
The Group's financial statements have been prepared on a cost basis, except for assets and liabilities in respect of certain financial instruments at fair value through profit or loss.

The Group has elected to present the statement of comprehensive income using the function of expense method.

3. Consistent Accounting Policies

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

Judgments:

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

- Recognizing revenue on a gross or net basis:

In cases where the Group acts as agent or broker bearing the risks and rewards derived from the transaction, revenue is presented on a gross basis.

- Determining the timing of satisfaction of performance obligations:

In order to determine the timing of recognizing revenues from contracts with customers at a point in time or overtime, the Company evaluates the date of transfer of control over the assets or services promised in the contracts. Among others, the Company evaluates whether the customer obtains control of the asset at a specific point in time or consumes the economic benefits associated with the contract simultaneously with the Company's performance. In determining the timing of revenue recognition, the Company also considers the provisions of applicable laws and regulations.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

b. Significant accounting judgments estimates, and assumptions used in the preparation of the financial statements (Cont.)

Estimates and assumptions:

In the process of preparation of the financial statements, management requires to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues, and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- Impairment of goodwill:

  The Group reviews goodwill for impairment at least once a year. This requires management to estimate the projected future cash flows from the continuing use of the cash-generating unit to which the goodwill is allocated and also to choose a suitable discount rate for those cash flows. (See additional information in p below).

- Deferred tax assets:

  Deferred tax assets are computed regarding unused carryforward tax losses and temporary differences that were not utilized to the extent that their utilization is probable. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the timing and level of expected future taxable profits, its source, and the tax planning strategy. See additional information in r below.

- Pension and other post-employment benefits:

  The liability in respect of post-employment defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about, among others, the discount rate, future salary increases, and forfeiture rates. The carrying amount of the liability may be highly sensitive out of changes in these estimates. See additional information in t below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

b. Significant accounting judgments estimates, and assumptions used in the preparation of the financial statements (Cont.)

- Determining the fair value of share-based payment transactions:

  The fair value of share-based payment transactions is determined using an acceptable option-pricing model. The inputs to the model include share price, exercise price, expected volatility, expected life, and expected dividend.

- Determining the fair value of non-controlling interests put option:

  When the Group measures the non-controlling interests in a business combination at fair value, the Group determines the fair value based on a valuation technique, generally the discounted cash flow method.

- Measuring the progress toward satisfaction of a performance obligation:

  For each transaction in which the performance obligation is satisfied over time, the Company applies an appropriate method of measuring progress toward satisfaction of the performance obligation using either an input or output method. In determining the appropriate method, the Company considers the nature of the goods or services transferred to the customer. In calculating the rate of progress toward satisfaction of a performance obligation in each period, the Company will make various estimates, such as expected volume of outputs from the contract, expected volume of inputs used in fulfilling the contract, etc. The Company exercises judgment in establishing the relevant estimates and relies, among others, on market data, the Company's past experience, and other facts and assumptions based on the relevant circumstances of each estimate.

- Lease extension and/or termination options:

  In evaluating whether it is reasonably certain that the Company will exercise an option to extend a lease or not exercise an option to terminate a lease, the Company considers all relevant facts and circumstances that create an economic incentive for the Company to exercise the option to extend or not exercise the option to terminate such as: significant amounts invested in leasehold improvements, the significance of the underlying asset to the Company's operation and whether it is a specialized asset, the Company's past experience with similar leases, etc.

  After the commencement date, the Company reassesses the term of the lease upon the occurrence of a significant event or a significant change in circumstances that affects whether the Company is reasonably certain to exercise an option or not exercise an option previously included in the determination of the lease term, such as significant leasehold improvements that had not been anticipated on the lease commencement date, sublease of the underlying asset for a period that exceeds the end of the previously determined lease period, etc.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

c. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control exists when a company has the power, directly or indirectly, to govern the financial and operating policies of an entity. The effect of potential voting rights that are exercisable at the end of the reporting period is considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the Subsidiaries are prepared as of the same dates and periods. The accounting policies in the financial statements of the Subsidiaries have been applied consistently and uniformly with those applied in the financial statements of the Company. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Non-controlling interests of Subsidiaries represent the non-controlling shareholders' share of the total comprehensive income (loss) of the Subsidiaries and their share of the net assets at fair value upon the acquisition of the Subsidiaries. The non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statements of financial position.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as a change in equity by adjusting the carrying amount of the non-controlling interests with a corresponding adjustment of the equity attributable to equity holders of the Company less / plus the consideration paid or received.

When realizing a subsidiary while losing control, the company:
- Deducts the assets (including goodwill) and liabilities of the subsidiary.
- Deducts the balance in the financial statements of the rights that do not confer control.
- Deducts the adjustments resulting from the translation of financial statements credited to equity.
- Recognition of the fair value of the consideration received.
- Recognition of the fair value of any remaining investment.
- Reclassifies the components previously recognized in other comprehensive income (loss), in the same way as it was required if the subsidiary would directly realize the related assets or liabilities.
- Recognition of any resulting difference (surplus or deficit) as profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

d. Functional currency, presentation currency, and foreign currency:

1. Functional currency and presentation currency:
The presentation currency of the financial statements is the NIS.
The Group determines the functional currency of each Group entity, including companies accounted for at equity.
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. Comprehensive income 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, net of the tax effect, 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 which had been recognized in other comprehensive income is transferred to profit or loss. Upon the partial disposal of a foreign operation which 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.

2. Transactions, assets, and liabilities in foreign currency:
Transactions denominated in foreign currency are recorded on 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 the end of each reporting period into the functional currency at the exchange rate at that date. Exchange differences, other than those capitalized to qualifying assets or recorded in equity in hedging transactions, are recognized in the statement of comprehensive income. Non-monetary assets and liabilities measured at cost in a foreign currency 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.

3. Index-linked monetary items:
Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at the end of each reporting period according to the terms of the agreement.

e. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

f. Short-term deposits:

Short-term deposits are bank deposits, with an original maturity period of more than three months from the investment date which do not meet the definition of cash equivalents. The deposits are presented according to their terms of deposit.

g. Inventories:

Inventories are measured at a lower cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The subsidiaries hold inventories of purchased merchandise and products which consist of educational software kits, computers, peripheral equipment, and spare parts. The cost of the inventories is determined using the first-in, first-out method.

The Group periodically evaluates the condition and age of inventories and makes provisions for slow-moving inventories accordingly.

h. Financial instruments:

1. Financial assets:

Financial assets are measured upon initial recognition at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

The Company classifies and measures debt instruments in the financial statements based on the following criteria:

- The Company's business model for managing financial assets; and
- The contractual cash flow terms of the financial asset.

Debt instruments are measured at amortized cost when:

The Company's business model is to hold the financial assets in order to collect their contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. After initial recognition, the instruments in this category are measured according to their terms at amortized cost using the effective interest rate method, less any provision for impairment.

On the date of initial recognition, the Company may irrevocably designate a debt instrument as measured at fair value through profit or loss if doing so eliminates, or significantly reduces, a measurement or recognition inconsistency, such as when a related financial liability is also measured at fair value through profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

h. Financial instruments (Cont.):

2. Impairment of financial assets:

The Company evaluates at the end of each reporting period the loss allowance for financial debt instruments which are not measured at fair value through profit or loss. The Company distinguishes between two types of loss allowances:

a) Debt instruments whose credit risk has not increased significantly since initial recognition, or whose credit risk is low - the loss allowance recognized in respect of this debt instrument is measured at an amount equal to the expected credit losses within 12 months from the reporting date (12-month ECLs); or

b) Debt instruments whose credit risk has increased significantly since initial recognition, and whose credit risk is not low - the loss allowance recognized is measured at an amount equal to the expected credit losses over the instrument's remaining term (lifetime ECLs).

The Company has short-term financial assets such as trade receivables in respect of which the Company applies a simplified approach and measures the loss allowance in an amount equal to the lifetime expected credit losses.

An impairment loss on debt instruments measured at amortized cost is recognized in profit or loss with a corresponding loss allowance that is offset from the carrying amount of the financial asset, whereas the impairment loss on debt instruments measured at fair value through other comprehensive income is recognized in profit or loss with a corresponding loss allowance that is recorded in other comprehensive income and not as a reduction of the carrying amount of the financial asset in the statement of financial position.

The Company applies the low credit risk simplification in the Standard, according to which the Company assumes the debt instrument's credit risk has not increased significantly since initial recognition if on the reporting date it is determined that the instrument has low credit risk, for example when the instrument has an external rating of "investment grade".

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

h. Financial instruments (Cont.):

3. Derecognition of Financial assets:

A financial asset is derecognized only when:

- The contractual rights to the cash flows from the financial asset has expired; or
- The Company has transferred substantially all the risks and rewards deriving from the contractual rights to receive cash flows from the financial asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; or
- The Company has retained its contractual rights to receive cash flows from the financial asset but has assumed a contractual obligation to pay the cash flows in full without material delay to a third party.

4. Financial liabilities:

Financial liabilities measured at amortized cost:

Financial liabilities are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability, except in the case of a financial liability, which is measured at fair value through profit or loss, in which transaction costs are charged to profit or loss.

After initial recognition, the Company measures all financial liabilities at amortized cost using the effective interest rate method, except for:

- Financial liabilities at fair value through profit or loss such as derivatives;

- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;

- Financial guarantee contracts;

- Commitments to provide a loan at a below-market interest rate;

- Contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies.

5. Derecognition of financial liabilities:

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is discharged or canceled or expires. A financial liability is extinguished when the debtor discharges the liability by paying in cash, other financial assets, goods, or services; or is legally released from the liability.

When there is a modification in the terms of existing financial liability, the Company evaluates whether the modification is substantial, taking into account qualitative and quantitative information.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

h. Financial instruments (Cont.):

If the terms of an existing financial liability are substantially modified or liability is exchanged for another liability from the same lender with substantially different terms, the modification or exchange is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognized in profit or loss.

If the modification in the terms of an existing liability is not substantial or if liability is exchanged for another liability from the same lender whose terms are not substantially different, the Company recalculates the carrying amount of the liability by discounting the revised cash flows at the original effective interest rate and any resulting difference is recognized in profit or loss.

6. Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously. The right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. In order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

7. Put option granted to non-controlling interests:

When the Group grants non-controlling interests a put option, to sell part or all of their interests in a subsidiary during a certain period, on the date of grant, the non-controlling interests are classified as a financial liability. The Group remeasures the financial liability at the end of each reporting period based on the estimated present value of the consideration to be transferred upon the exercise of the put option. Changes in the amount of the liability are recorded in the statement of comprehensive income. If the option is exercised in subsequent periods, the consideration paid upon exercise is treated as a settlement of the liability. If the option expires, the liability is settled and it is a portion of the investment in the subsidiary disposed of, without loss of control therein.

i. Hedging accounting:

1. Derivative financial instruments for hedging purposes (protection)

The group sometimes enters into derivative financial instruments such as forward contracts for foreign currency and interest rate swaps (IRS) to protect itself from the risks associated with fluctuations in foreign currency exchange rates and interest rates.
Gains or losses resulting from changes in the fair value of derivatives that are not used for hedging purposes are immediately credited to profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

i. Hedging accounting (Cont.):

1. Derivative financial instruments for hedging purposes (protection)

The group sometimes enters into derivative financial instruments such as forward contracts for foreign currency and interest rate swaps (IRS) to protect itself from the risks associated with fluctuations in foreign currency exchange rates and interest rates.
Gains or losses resulting from changes in the fair value of derivatives that are not used for hedging purposes are immediately credited to profit or loss.

Hedging transactions qualify as a hedge accounting service, among other things, when at the time the hedge is created there is a designation and formal documentation of the hedging relationship and of the group's risk management objective and strategy to hedge. The hedge is examined on an ongoing basis and is determined in practice to be highly effective during the financial reporting period for which the hedge is intended. Hedging transactions are handled as follows:

2. Cash flow hedging

The effective part of the changes in the fair value of the hedging instrument is recognized in other comprehensive income (loss) while the ineffective part is recognized immediately in profit or loss.
Other comprehensive gain (loss) is transferred to profit or loss when the results of the hedging transaction are charged to profit or loss, for example, in periods when interest income or interest expense is recognized or when a forecast sale occurs. When the hedged item is a non-financial asset or liability, their cost also includes the amount of profit (loss) from the hedging instrument.
The company ceases to apply hedge accounting from here on out only when the hedging relationship (or part of it), ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable) including cases where the hedging instrument expires, is sold, canceled or exercised (or if the designation as a hedging instrument has been canceled). When the Company ceases to apply hedge accounting, the amount accumulated in the hedge fund will remain in the hedge fund until the cash flow occurs or will be classified in profit or loss if the hedged future cash flows are no longer expected to occur.

j. Leases:

The Company accounts for a contract as a lease when the contract terms convey the right to control the use of an identified asset for a period of time in exchange for consideration.

1. The Group as a lessee:

For leases in which the Company is the lessee, the Company recognizes on the commencement date of the lease a right-of-use asset and a lease liability, excluding leases whose term is up to 12 months and leases for which the underlying asset is of low value. For these excluded leases, the Company has elected to recognize the lease payments as an expense in profit or loss on a straight-line basis over the lease term. In measuring the lease liability, the Company has elected to apply the practical expedient in the Standard and does not separate the lease components from the non-lease components (such as management and maintenance services, etc.) included in a single contract.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

j. Leases (cont.):

Leases which entitle employees to a company car as part of their employment terms are accounted for as employee benefits in accordance with the provisions of IAS 19 and not as subleases.

On the commencement date, the lease liability includes all unpaid lease payments discounted at the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Company's incremental borrowing rate. After

the commencement date, the Company measures the lease liability using the effective interest rate method.

On the commencement date, the right-of-use asset is recognized in an amount equal to the lease liability plus lease payments already made on or before the commencement date and initial direct costs incurred. The right-of-use asset is measured applying the cost model and depreciated over the shorter of its useful life and the lease term.

Following are the amortization periods of the right-of-use assets by class of underlying asset:

	Years	**Mainly**
Land	3-5	3
Motor vehicles	3	3

The Company tests for impairment of the right-of-use asset whenever there are indications of impairment pursuant to the provisions of IAS 36.

2. Lease payments linked to C.P.I.:

On the commencement date, the Company uses the index rate prevailing on the commencement date to calculate the future lease payments.

For leases in which the Company is the lessee, the aggregate changes in future lease payments resulting from a change in the index are discounted (without a change in the discount rate applicable to the lease liability) and recorded as an adjustment of the lease liability and the right-of-use asset, only when there is a change in the cash flows resulting from the change in the index (that is, when the adjustment to the lease payments takes effect).

3. Lease extension and termination options:

A non-cancelable lease term includes both the periods covered by an option to extend the lease when it is reasonably certain that the extension option will be exercised and the periods covered by a lease termination option when it is reasonably certain that the termination option will not be exercised.

In the event of any change in the expected exercise of the lease extension option or in the expected non-exercise of the lease termination option, the Company remeasures the lease liability based on the revised lease term using a revised

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

j. Leases (cont.):

discount rate as of the date of the change in expectations. The total change is recognized in the carrying amount of the right-of-use asset until it is reduced to zero, and any further reductions are recognized in profit or loss.

4. Lease modifications:

If a lease modification does not reduce the scope of the lease and does not result in a separate lease, the Company remeasures the lease liability based on the modified lease terms using a revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

If a lease modification reduces the scope of the lease, the Company recognizes a gain or loss arising from the partial or full reduction of the carrying amount of the right-of-use asset and the lease liability. The Company subsequently remeasures the carrying amount of the lease liability according to the revised lease terms, at the revised discount rate as of the modification date, and records the change in the lease liability as an adjustment to the right-of-use asset.

k. Business combinations and goodwill:

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the acquisition date with the addition of non-controlling interests in the acquire. In each business combination, the Company chooses whether to measure the non-controlling interests in the acquire based on their fair value on the acquisition date or at their proportionate share in the fair value of the acquirer's net identifiable assets.

Direct acquisition costs are carried to the statement of comprehensive income as incurred.

In a business combination achieved in stages, equity interests in the acquiree that had been held by the acquirer prior to obtaining control are measured at the acquisition date fair value while recognizing a gain or loss resulting from the revaluation of the prior investment on the date of achieving control.

Contingent consideration is recognized at fair value on the acquisition date and classified as a financial asset or liability in accordance with IFRS 9. Subsequent changes in the fair value of the contingent consideration are recognized in the statement of comprehensive income.

Goodwill is initially measured at a cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the resulting amount is negative, the acquirer recognizes the resulting gain on the acquisition date without subsequent measurement.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

l. Property, plant, and equipment:

Property, plant, and equipment are measured at cost, including directly attributable costs, less accumulated depreciation, accumulated impairment losses, and any related investment grants and excluding day-to-day servicing expenses. The cost includes spare parts and auxiliary equipment that are used in connection with the plant and equipment.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%
Building	20-33
Computers, furniture, and equipment	7-33
Motor vehicles	33.33
Leasehold improvements	See below

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Group and intended to be exercised) and the expected life of the improvement.

The useful life, depreciation method, and residual value of an asset are reviewed at least each year-end, and any changes are accounted for prospectively as a change in accounting estimate. As for testing the impairment of property, plant, and equipment, see p below.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

m. Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in the statement of comprehensive income when incurred.

According to management's assessment, intangible assets that have a finite useful life, are amortized over their useful life using the straight-line method and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful life assessment from indefinite to finite is accounted for prospectively as a change in accounting estimate, and on that date the asset is tested for impairment. Commencing from that date, the asset is amortized systematically over its useful life.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

m. Intangible assets (Cont.):

The useful life of intangible assets is as follows:

	Years
Customer base and backlog	3 - 8
Brand names	5
Licenses and franchises	2 - 4

Gains or losses arising from the derecognition of an intangible asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive income.

n. Impairment of non-financial assets:

The Company evaluates the need for an impairment of non-financial assets (property, plant, and equipment, intangible assets, goodwill, investments in associates) whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair

value fewer costs of sale, and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of comprehensive income.

An impairment loss of an asset, except goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in the statement of comprehensive income.

The following unique criteria are applied in assessing impairment of these specific assets:

1. Goodwill in respect of acquired businesses:

   For the purpose of impairment testing, goodwill acquired in a business combination is allocated, at the acquisition date, to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

   The Company performs its own tests and uses third-party valuation specialists to test goodwill for impairment once a year, on December 31, or more frequently if events or changes in circumstances indicate that there is impairment.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

n. Impairment of non-financial assets (Cont.):

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

2. Investment in an associate company using the equity method:

After the application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the investment in associates or joint ventures. The Company determines at each reporting date whether there is objective evidence that the carrying amount of the investment in the associate or the joint venture is impaired.
The test of impairment is carried out with reference to the entire investment, including the goodwill attributed to the associate or the joint venture.

o. Government grants:

Government grants are recognized when there is reasonable assurance that the grants will be received and the Company will comply with the attached conditions.

p. Taxes on income:

Current or deferred taxes are recognized in the comprehensive income, except to the extent that they relate to items that are recognized in other comprehensive income or equity.

1. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred taxes are measured at the tax rate that is expected to apply when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

p. Taxes on income (Cont.):

Deferred tax assets are reviewed at each reporting date based on their utilization probability. Deductible carryforward losses and temporary differences for which deferred tax assets had not been recognized are reviewed at each reporting date and a respective deferred tax asset is recognized to the extent that their utilization is probable.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability.

Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

q. Share-based payment transactions:

The Company's employees are entitled to remuneration in the form of equity-settled share-based payment transactions.

Equity-settled transactions:

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments at its grant date. The fair value is determined using a standard option pricing model.

The cost of equity-settled transactions is recognized in the statement of comprehensive income together with a corresponding increase in equity during the period which the performance and/or service conditions are to be satisfied ending on the date on which the relevant employees become entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

r. Employee benefit liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation, and social security contributions, and are recognized as expenses as the services are rendered. Liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits:

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

The Group has defined contribution plans pursuant to section 14 to the Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed concurrently with the performance of the employee's services.

The Group also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon
dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include rates of employee turnover and future salary increases based on the estimated timing of payment. The amounts are
presented based on discounted expected future cash flows using a discount rate determined by reference to market yields at the reporting date on high-quality corporate debentures that are linked to the Consumer Price Index with a term that is consistent with the estimated term of the severance pay obligation.

In respect of its severance pay obligation to certain of its employees, the Group makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

r. Employee benefit liabilities (Cont.):

The liability for employee benefits shown in the statement of financial position reflects the present value of the defined benefit obligation less the fair value of the plan assets.

Remeasurements of the net liability are recognized in other comprehensive income in the period in which they occur.

3. Other long-term employee benefits:

The Group's employees are entitled to benefits with respect to adaptation grants. These benefits are accounted for as other long-term benefits since the Company estimates that these benefits will be used and the respective Group's obligation will be settled during the employment period and more than twelve months after the end of the annual reporting period in which the employees render the related service.

The Group's net obligation for other long-term employee benefits, which is computed based on actuarial assumptions, is for the future benefit due to the employees for service rendered in the current period and in prior periods and taking into account expected salary increases. The amount of these benefits is discounted to its present value. The discount rate is determined by reference at the reporting date to market yields on high-quality corporate debentures that are linked to the Consumer Price Index and whose term is consistent with the term of the Group's obligation.
Remeasurement of the net obligation is recognized to the statement of comprehensive income in the incurred period.

s. Revenue recognition:

Revenue from contracts with customers is recognized in profit and loss statement when the control over the goods or services is transferred to the customer. The transaction price is the amount of the consideration that is expected to be received based on the contract terms, excluding amounts collected on behalf of third parties (such as taxes).

In determining the amount of revenue from contracts with customers, the Company evaluates whether it is a principal or an agent in the arrangement. The Company is a principal when the Company controls the promised goods or services before transferring them to the customer. In these circumstances, the Company recognizes revenue for the gross amount of the consideration. When the Company is an agent, it recognizes revenue for the net amount of the consideration, after deducting the amount due to the principal supplier.

Revenue of contracts according to actual inputs:

Income from framework agreements for the performance of work according to actual inputs is recognized according to the hours actually invested:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

s. Revenue recognition (cont.):

Revenue of Fixed Price contracts:

Income from these contracts, is recognized according to the completion rate method when all the following conditions are met: the income is known or can be estimated reliably, the collection of income is expected, the costs involved in performing the work are known or can be estimated, there is no material uncertainty about the group's ability to complete the work and, the customer and the completion rate can be reliably estimated.
The completion rate is determined on the basis of the actual cost versus the projected total cost.
As long as all the conditions for the recognition of income from works under a long term project (POC valuation) contract are not met, income is recognized in the amount of costs incurred, which is likely to be returned (Probable) ("presentation of zero margin").
When a loss is expected from the contract, the full loss is recognized immediately regardless of the completion rate as part of the cost of the sale. according to the hours actually invested:

Revenues from sales, distribution, and support of software products:

The Company recognizes revenue from software licensing transactions at a point in time when the Company provides the customer a right to use the Company's intellectual property as it exists at the point in time at which the license is granted to the customer.
The Company recognizes revenue from software licensing transactions overtime when the Company provides the customer a right to access the Company's intellectual property throughout the license period.
Revenue from sales agreements that do not have a general right of return, which include several components such as software, service, and support agreements, is split into separate performance obligations and recognized separately for each performance obligation. The allocation of the consideration shall be performed proportionately based on the separate sales price of each component. Recognition of revenue from the various performance obligations is recognized when the conditions for recognition of the income from the components included in that obligation are satisfied, and only up to the amount of the consideration that is not contingent upon completion or performance of the remaining components of the contract.

Revenue from maintenance:

Maintenance income is recognized on a pro-rata basis over the period of the maintenance contract due to be made in each accounting year.
Income received and not yet rendered for the service is charged to advance income.

Revenue from Training and implementation:

Revenues from training and implementation services are recognized when the service is provided.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

s. Revenue recognition (Cont.):

Income from training services in respect of public courses whose operating range is up to 3 months will be recognized over the course period.

Income from training services in respect of courses offered and long-term conversion courses or short-term courses up to one year will be recognized over the course of the course.
Revenues from implementation projects ordered by organizations will be recognized according to actual inputs (actually worked hours).

Revenue from Cloud infrastructure and computer solutions:

Revenues from Cloud infrastructure and computer solutions are recognized in profit or loss at a point in time, with the transfer of control over the goods sold to the customer. Usually, the control is transferred when the goods are delivered to the customer.

Combination of contracts:

The Company accounts for multiple contracts as a single contract when all the contracts are signed at or near the same time with the same customer or with related parties of the customer, and when one of the following criteria is met:

- The contracts are negotiated as a package with a single commercial objective.

- The amount of consideration to be paid in one contract depends on the consideration of another contract.

- The goods or services that the Company will provide according to the contracts represent a single performance obligation for the Company.

Revenues on a gross basis or on a net basis
In determining how to present the income from contracts with customers, the company examines whether it acts as the principal debtor or as an agent in the contract. The company is a primary supplier when it controls the promised goods or service before it is transferred to the customer and bears the risks and returns derived from the transaction. In these cases, the company recognizes revenue in the gross amount of the consideration. In cases where the company acts as an agent or intermediary, without bearing the risks and returns derived from the transaction, the company recognizes income in the net amount, after deducting the amounts owed to the main supplier

Variable consideration:
The Company determines the transaction price separately for each contract with a customer. When exercising this judgment, the Company evaluates the effect of each variable amount in the contract, taking into consideration discounts, penalties, variations, claims, and non-cash consideration. In determining the effect of the variable consideration, the Company normally uses the "most likely amount" method described in the Standard.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

s. Revenue recognition (Cont.):

Pursuant to this method, the amount of the consideration is determined as the single most likely amount in the range of possible consideration amounts in the contract. According to the Standard, variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Allocating the transaction price:

For contracts that consist of more than one performance obligation, at contract inception, the Company allocates the contract transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis. The stand-alone selling price is the price at which the Company would sell the promised goods or services separately to a customer. When the stand-alone selling price is not directly observable by reference to similar transactions with similar customers, the Company applies suitable methods for estimating the stand-alone selling price including: the adjusted market assessment approach, the expected cost plus a margin approach, and the residual approach. The Company may also use a combination of these approaches to allocate the transaction price in the contract.

t. Earnings per share:

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period.

Potential Ordinary shares are included in the computation of diluted earnings per share when their conversion decreases earnings per share from continuing operations. Potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on its share of earnings per share of the investees multiplied by the number of shares held by the Company.

u. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Allocating the transaction price:

u. Provisions (Cont.):

Following are the types of provisions included in the financial statements:

Legal claims:

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liability recognized in a business combination:

A contingent liability in a business combination is measured at fair value upon initial recognition. In subsequent periods, it is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization, and the amount that would be recognized at the end of the reporting period in accordance with IAS 37.

v. Treasury shares:

The company shares held by the Company are recognized at cost and deducted from equity. Any gain or loss arising from purchase, sale, issue, or cancellation of treasury shares is recognized directly in equity.

w. *Changes in accounting policies - initial application of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards:*

In May 2020, the IASB published an amendment to IAS 16 (hereinafter - the amendment). The amendment prohibits the reduction of proceeds received from the sale

Changes in accounting policies - initial application of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards (cont.):

of items produced while the company is preparing the fixed asset for its intended use from its cost. Beyond that, the company will recognize the sale proceeds and the associated costs in profit or loss.

The amendment was applied to annual reporting periods beginning on January 1, 2022. The amendment was applied retroactively, but only to items of fixed assets brought to the location and condition necessary for them to be able to operate in the manner intended by management at the beginning of the earliest annual reporting period shown in the financial statements in which the amendment is first applied.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

1. Amendment to IAS 16, Fixed Assets
The cumulative effect of the first application of the amendment is recognized as an adjustment to the opening balance of the surplus (or other component of equity, as applicable) at the beginning of the earliest period presented.

The above amendment did not have a material impact on the company's financial statements.

2. IFRS 3 Business Combinations
In October 2018, the IASB published an amendment to the definition of "business" in International Financial Reporting Standard 3 Business Combinations (hereinafter - the amendment).

The amendment includes a clarification that in order to be considered a "business", a set of activities and assets that have been purchased must include at least a substantial input and process which together contribute significantly to the ability to produce outputs. In addition, the amendment clarifies that a business can exist even without all the inputs and processes required to produce outputs. The amendment includes an optional test according to which a company can determine that it is not a business purchase, without the need for additional tests.

The amendment will be applied for the first time for business combinations and asset purchase transactions, the purchase date of which is January 1, 2022 or later.

The application of the amendment for the first time had no material effect on the company's financial statements.

x. *Disclosure to new IFRS standards in the period before their implementation*

1. Amendment to IAS 1, Presentation of financial statements

In January 2020, the IASB published an amendment to IAS 1 regarding the requirements for classifying liabilities as current or non-current (hereinafter: "the original amendment"). In October 2022, the IASB published a subsequent amendment to the amendment to the above (hereinafter: "the subsequent amendment").

The subsequent amendment stated that:
o Only financial criteria that an entity must meet at the end of the reporting period or before, affect the classification of that obligation as a current obligation or a non-current obligation.

o For obligations for which the test of compliance with the financial criteria is examined within the following 12 months of the reporting date, disclosure must be given in a way

that will allow users of the financial statements to assess the risks regarding that obligation. In other words, the subsequent amendment states that the book value of the obligation must be disclosed, information about the financial benchmarks as well as facts and circumstances at the end of the reporting period which may lead to the conclusion that the entity will have difficulty meeting the financial benchmarks.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

The original amendment stated that the right to convert a liability will affect the classification of the entire liability as a current or non-current liability, except in cases where the conversion component is equity.

The original amendment and the subsequent amendment will be applied to annual periods beginning on or after January 1, 2024. Early application is possible. The amendments will be applied retroactively.
In the company's assessment, the amendment is not expected to have a material impact on the company's financial statements.

2. Amendment to IAS 12, Income Taxes

In May 2021, the IASB published an amendment to International Accounting Standard 12, Income Taxes (hereinafter: IAS 12" or "the Standard") which reduces the applicability of the 'first-time recognition exception' in deferred taxes set forth in Articles 15 and 24 of IAS 12 (hereinafter: "The Amendment").

As part of the guidelines for the recognition of deferred tax assets and liabilities, IAS 12 excludes the recognition of deferred tax assets and liabilities for certain temporary differences arising from the initial recognition of assets and liabilities in certain transactions. This exception is called the 'first recognition exception'. The amendment narrows the applicability of the 'first-time recognition exception' and clarifies that it does not apply to the recognition of deferred tax assets and liabilities arising from a transaction that is not a business combination and for which equal temporary differences arise in the obligation and the right even if they meet the other conditions of the exception.

The amendment will be applied to annual periods beginning on or after January 1, 2023. Early application is possible. Regarding lease transactions and recognition of a liability for liquidation and rehabilitation - the amendment will be applied starting from the beginning of the earliest reporting period shown in the financial statements in which the amendment was first applied, imputing the cumulative effect of the first application to the opening balance of the surplus (or another component of capital, as applicable) for that date.
In the company's estimation, the above amendment is not expected to have a material impact on the company's financial statements.

3. Amendment to IFRS 16, Leases

In September 2022, the IASB published an amendment to International Accounting Standard 16, Leases (hereinafter: "the amendment") which aims to provide accounting treatment in the financial statements of the seller-lessee in sale and leaseback transactions when the lease payments are variable lease payments that do not depend on the index or rate. As part of the amendment, the seller-lessee is required to adopt one of two approaches to measuring the liability for the lease at the time of first recognition of such transactions. The chosen approach constitutes an accounting policy that must be applied consistently.
The amendment will be implemented for annual periods beginning on or after January 1, 2024, earlier implementation is possible. The amendment will be applied retroactively.
In the company's assessment, the amendment is not expected to have a material impact on the financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

y. Below are data on changes in the indices and the relevant exchange rates:

	As of 31.12.22	As of 31.12.21	As of 31.12.20
Consumer Price Index-CPI (Basis 2000)			
In Israel (Prevailing Index)	108.0	102.6	99.8
In Israel (Known Index)	107.7	102.3	99.9
Exchange rate against NIS			
Dollar	3.52	3.11	3.21
Euro	3.75	3.52	3.94

	Year ended 31.12.22 %	Year ended 31.12.21 %	Year ended 31.12.20 %
Consumer Price Index-CPI (Basis 2000)			
In Israel (Prevailing Index)	5.26	2.80	(0.69)
In Israel (Known Index)	5.28	2.40	(0.60)
Exchange rate against NIS			
Dollar	13.15	(3.27)	6.97
Euro	6.62	(10.76)	1.70

NOTE 3:- BUSINESS COMBINATIONS

a. On April 5, 2021, the company, through its subsidiary Babcom Centers Ltd., acquired 60 percent of the share capital of S.Q. Hashita Ltd. for NIS 4 million. As part of the purchase agreement, additional consideration was agreed subject to the achievement of operating profit targets, according to the company's calculation, the value of the additional consideration as of the day of the business combination is NIS 0.3 million). The company provides research advice to organizations in the field of market surveys, customer experience surveys, and employee experience surveys, among other things through dedicated survey software to carry out improvement and streamlining processes in organizations, in addition to establishing and operating outsourced service and sales centers for organizations. The valuation based on the attribution of the consideration to the assets and liabilities, the excess purchase cost in the amount of NIS 5.2 million was attributed by the company, to intangible assets in the amount of NIS 1.4 million and the balance was attributed to goodwill.

b. On April 5, 2021, the Company, through its granddaughter Dana Engineering Ltd. (a subsidiary of Aviv Management Engineering and Systems Ltd.), acquired 75 percent of the share capital of Company A. A. Engineering Ltd. for NIS 10.5 million. As part of the acquisition agreement, additional consideration was agreed subject to the achievement of operating profit targets, according to the company's calculation, the value of the additional consideration for the day of joining the business is NIS 0.5 million. After more, Dana has an option to purchase additional 25 percent of A.A. shares. A.A. is engaged in management, coordination, and supervision of engineering projects of infrastructure and construction for residences and public buildings, among others, public bodies, and local authorities. The valuation, based on the attribution of the consideration to the assets and liabilities, the excess acquisition cost of NIS 8.9 million was attributed to intangible assets, NIS 3.8 million and the balance was attributed to goodwill.

c. On April 29, 2021, the Company acquired 75 percent of the share capital of the I.T.D. Group Ltd. for NIS 5.75 million. As part of the purchase agreement, additional consideration was agreed subject to achieving operating profit targets. According to the company's calculation, the value of the additional consideration for the day of the acquisition is NIS 0.2 million. The Company has an option to purchase the additional 25% as well. I.T.D is engaged in the software area around the medical products, including project execution and regulatory consulting (including obtaining approvals related to this aspect of the product). The valuation, based on the attribution of the consideration to the assets and liabilities, the excess acquisition cost of NIS 6.7 million was attributed to intangible assets, NIS 2.9 million and the balance was attributed to goodwill.

d. On October 5, 2021, the Company acquired, through Matrix Integration and Infrastructure Ltd., 60 percent of the share capital of AVB. Technologies Ltd. for NIS 4.6 million. In part of the purchase agreement, additional consideration was agreed subject to the achievement of operating profit targets, according to the company's calculation was 2.1 million as of the business combination date. AVB is engaged in Multimedia systems and components, control and monitoring, providing multidisciplinary engineering consulting services, systems design, management, and project support. The valuation, based on the attribution of the consideration to the assets and liabilities, the excess acquisition cost of NIS 6.5 million was attributed to intangible assets, NIS 3.1 million and the balance was attributed to goodwill.

NOTE 3:- BUSINESS COMBINATIONS (CONT.)

e. On April 24, 2022, the transaction was completed in which the company sold holdings representing 45.2% of the issued share capital of the subsidiary company Infinity Labs R. & D. Ltd. ("Infinity"), after the completion of the transaction, the company will be left with a holding of 4.9% of Infinity's share capital, for a total of NIS 154.5 million. As a result of the transaction, the company recognized in its financial statements a capital gain (before tax), in the amount of about NIS 150 million gross (including revaluation of the maintenance balance of 4.9%), as well as recognition of tax expenses in the amount of about NIS 28.5 million. In light of the above, starting from the second quarter of 2022, the company stopped consolidating the results of the Infinity subsidiary in its financial statements, the remaining holding (4.9%) will be measured from then on at fair value. Changes in fair value will be credited to profit and loss.

f. On June 19, 2022, the company, through its subsidiary Matrix IT Integration and Infrastructure Ltd., purchased 100% of the share capital of the companies RDT Equipment and Systems (1993) Ltd., Asio Vision Ltd. and R.S.A. Test Systems Industry Ltd. (hereafter collectively "RDT"), for a total of approximately NIS 44 million. As part of the purchase agreement, the sellers will be entitled to additional consideration that depends on the future financial results of RDT. RDT markets solutions and systems for a wide range of technologies, including control and automation systems, test and measurement equipment, advanced technological solutions for testing data communication, EMC and (Radio frequency) RF, and serves, among other things, as a representative in Israel of dozens of international companies.
As of the date of the report, the valuation underlying the attribution of the proceeds to assets and liabilities (Purchase Price Allocation) has not yet been completed, and accordingly this attribution is temporary, according to the management's assessment, and may be updated in subsequent periods after the completion of the valuation.
According to the temporary attribution, the excess of the purchase cost in the amount of approximately NIS 40 million will be attributed to intangible assets in the amount of approximately NIS 12 million and the balance will be attributed to goodwill.
As mentioned above, the group recognized the fair value of the acquired assets and the liabilities assumed as part of the business combination according to temporary measurement. Therefore, the purchase price and the fair value of the purchased assets and liabilities can be finally adjusted up to 12 months from the date of purchase.

NOTE 4:- CASH AND CASH EQUIVALENTS

	December 31, 2022	December 31, 2021
	NIS in thousands	
In NIS:		
Cash for immediate withdrawal	250,194	311,739
Short-term deposits	303,218	52,378
	553,412	364,117
In foreign currency:		
Cash for immediate withdrawal	226,813	169,144
Short-term deposits	59,088	871
	285,901	170,015
	839,313	**534,132**

NOTE 5:- TRADE RECEIVABLES AND UNBILLED RECEIVABLE, NET

	December 31, 2022	December 31, 2021
	NIS in thousands	
Open debts:		
In NIS	950,255	955,577
In foreign currency	168,476	103,165
Related parties	6,821	5,474
Checks receivable	52,262	36,570
Unbilled receivables	317,691	308,354
Less - allowance for doubtful accounts	(13,744)	(12,167)
Trade receivables, net	**1,481,761**	**1,396,973**

NOTE 5:- TRADE RECEIVABLES AND UNBILLED RECEIVABLE, NET (CONT.)

Impaired debts are accounted for through recording an allowance for doubtful accounts.

The movement in the allowance for doubtful accounts is as follows:

	NIS in thousands
Balance at January 1, 2021	12,402
Entrance to consolidation	64
Addition during the year	2,724
Derecognition of bad debts	(1,672)
Reversal of collected doubtful accounts	(1,351)
Exchange Differences on translation of foreign operations	-
Balance at December 31, 2021	12,167
Entrance to consolidation	172
Addition during the year	5,676
Derecognition of bad debts	(1,924)
Reversal of collected doubtful accounts	(2,347)
Exchange Differences on translation of foreign operations	-
Balance at December 31, 2022	**13,744**

An analysis of past due debts, including long-term trade receivables, which were not impaired (through allowance for doubtful accounts), trade receivables, net, with reference to reporting date:

		Past due trade receivables with aging of					
	Current	< 30 days	30 - 60 days	60 - 90 days	90 - 120 days	>120 days	Total
	NIS in thousands						
December 31, 2022	1,030,800	204,609	132,822	56,411	27,612	29,507	1,481,761
December 31, 2021	834,585	374,046	52,992	20,567	79,732	35,051	1,396,973

NOTE 6:- OTHER ACCOUNTS RECEIVABLE

	December 31, 2022	December 31, 2021
	NIS in thousands	
Employees	1,500	1,006
Government authorities	3,676	2,894
Prepaid expenses	97,332	106,109
Advances to suppliers	7,303	5,257
Other accounts receivable	2,939	1,492
	112,750	**116,758**

NOTE 7:- INVENTORIES

	December 31, 2021	December 31, 2020
	NIS in thousands	
Purchased products:		
Inventories of computers and peripheral equipment	118,326	62,570

NOTE 8:- PROPERTY, PLANT AND EQUIPMENT

Composition and movement:

2022:

	Assets owned and used by the Company			Assets under operating lease	
	Computers, furniture and equipment	Motor vehicles	Leasehold improvements	Machinery and equipment	Total
	NIS in thousands				
Cost:					
Balance at January 1, 2022	127,609	19,759	82,278	66,805	311,401
Entrance to consolidation	9,157	609	995	-	3,300
Purchases	20,734	753	9,231	8,039	35,080
Disposals	(3,648)	(1,550)	-	(11,673)	(52,631)
Loss of Control	(2,408)	-	(4,706)	-	-
Exchange rate differences from translation of foreign operations	1,305	-	-	-	1,305
Balance at December 31, 2022	152,749	19,571	87,798	63,171	323,289
Accumulated depreciation:					
Balance at January 1, 2022	87,691	9,481	54,014	49,499	200,685
Entrance to consolidation	7,026	438	982	-	8,446
Depreciation	17,402	2,903	6,920	8,106	35,331
Disposals	(3,442)	(1,078)	-	(11,304)	(15,824)
Loss of Control	(1,08.3)	-	(3,417)	-	(4,500)
Exchange rate differences from translation of foreign operations	986	-	-	-	986
Balance at December 31,2022	108,580	11,744	58,499	46,301	225,124
Depreciated cost at December 31, 2022	44,169	7,827	29,299	16,870	98,165

NOTE 8:- PROPERTY, PLANT AND EQUIPMENT (CONT.)

2021:

	Assets owned and used by the Company			Assets under operating lease	
	Computers, furniture and equipment	**Motor vehicles**	**Leasehold improvements**	**Machinery and equipment**	**Total**
	NIS in thousands				
Cost:					
Balance at January 1, 2021	137,071	21,360	81,941	71,029	311,401
Entrance to consolidation	1,883	1,150	267	-	3,300
Purchases	16,518	1,943	7,186	9,433	35,080
Disposals	(27,237)	(4,621)	(7,115)	(13,658)	(52,631)
Exchange rate differences from translation of foreign operations	(626)	(77)	-	-	(703)
Balance at December 31, 2021	127,609	19,755	82,279	66,804	296,447
Accumulated depreciation:					
Balance at January 1, 2021	96,374	8,517	52,430	53,959	211,280
Entrance to consolidation	1,027	881	131	-	2,039
Depreciation	17,500	3,082	7,798	8,392	36,772
Disposals	(26,797)	(2,927)	(6,346)	(12,852)	(48,922)
Exchange rate differences from translation of foreign operations	(418)	(71)	-	-	(489)
Balance at December 31,2021	87,686	9,482	54,013	49,499	200,680
Depreciated cost at December 31, 2021	39,923	10,273	28,266	17,305	95,767

NOTE 9:- GOODWILL AND INTANGIBLE ASSETS

a. Composition:

2022:

	Customer base and backlog	Licenses and franchises	Goodwill	Total
		NIS in thousands		
Cost:				
Balance as of January 1, 2022	237,249	4,976	944,940	1,187,165
Entrance to consolidation	12,007	-	36,322	48,329
Loss of Control	-	-	(1,470)	(1,470)
Foreign currency translation adjustments	-	-	23,240	23,240
Adjustments	210	-	(1,493)	(1,283)
Balance as of December 31, 2022	249,466	4,976	1,001,539	1,255,981
Accumulated amortization:				
Balance as of January 1, 2022	129,856	4,526	103,023	237,405
Amortization	20,617	187	-	20,804
Balance as of December 31, 2022	150,473	4,713	103,023	258,209
Net Balance as of December 31, 2022	98,993	263	898,516	997,772

2021:

	Customer base and backlog	Licenses and franchises	Goodwill	Total
		NIS in thousands		
Cost:				
Balance as of January 1, 2021	225,006	4,976	925,237	1,155, 219
Entrance to consolidation	11,073	-	23,537	34,610
Foreign currency translation adjustments	-	-	(6,113)	(6,113)
Adjustments	1,170	-	2,279	3,449
Balance as of December 31, 2021	237,249	4,976	944,940	1,187,165
Accumulated amortization:				
Balance as of January 1, 2021	108,591	4,339	103,023	215,953
Amortization	21,265	187		21,452
Balance as of December 31, 2021	129,856	4,526	103,023	237,405
Net Balance as of December 31, 2021	107,393	450	841,917	949,760

NOTE 9:- GOODWILL AND INTANGIBLE ASSETS (CONT.)

a. Composition (Cont.):
In 2022, the Group derecognized the balance of intangible assets (brand names) which were fully depreciated and are no longer used by the group, in the amount of approximately 4,450 thousand NIS.
.

b. Amortization of intangible assets:

1. The amortization method reflects the future economic benefits that will derive from the asset.

2. The amortization expenses of intangible assets with a definite useful life were allocated mainly in selling and marketing expenses in the statement of comprehensive income.

c. Impairment of goodwill:

In order to test the impairment of goodwill, the goodwill was allocated to operating segments that represent five cash-generating units as follows:

1. Information Technologies (IT) Software solutions and services, Consulting & Management in Israel.
2. Information Technologies (IT) Software solutions and services in USA.
3. Software product marketing and support.
4. Cloud infrastructure and computer solutions.
2. Training and implementation.

As of December 31, 2022, the carrying amount of the goodwill allocated to each cash-generating unit (each representing a segment) is as follows:

	IT Software solutions and services in Israel	Training and implementation	Software product marketing and support	Cloud infrastructur e and Computer solutions	IT Software solutions and services in USA	Total
	NIS in thousands					
Goodwill balance as of January 1, 2022	414,943	82,689	28,584	66,722	248,979	841,917
Initially consolidated company	-	-	-	36,322	-	36,322
Loss of control	(1,470)	-	-	-	-	(1,470)
Adjustments	(1,516)	-	-	23	-	(1,493)
Foreign currency translation adjustments	-	-	-	-	23,240)	23,240
Goodwill balance as of December 31, 2022	411,957	82,689	28,584	103,067	272,219	898,516

NOTE 9:- GOODWILL AND INTANGIBLE ASSETS (CONT.)

d. Data of units to which material goodwill was allocated in relation to the goodwill's carrying amount:

Information Technologies (IT) Software solutions and services, Consulting & Management in Israel:

Total goodwill as of December 31, 2022 in the amount of NIS 411,957 thousand (total goodwill as of December 31, 2021 NIS 414,943 thousand). The recoverable amount of the software solutions and services unit was determined based on the value in use which is calculated according to the expected estimated future cash flows from this cash-generating unit, as determined according to the budget for the next 5 years and approved by the Group's management. The key assumptions used in calculating the value in use by the Group's management consist of: discount rate, salary expenses in relation to revenues, and growth rate. The discount rate underlying the cash flows is 9.2%, whereby the calculation of the average capital price takes into consideration a gross average debt price of about 5.75% and an equity price of about 9.77%. According to the valuation, the recoverable amount is NIS 2,578 million.
Concerning the assumptions used to determine the value of the use of the unit described above, management believes that there are no possible changes to the key assumptions outlined above that could cause the balance of the unit's financial statements to significantly exceed the recoverable amount.
The cash flow projections were made for the period 2023-2027 and for a period exceeding 5 years and were estimated using a constant growth rate of 3%..
The company does not attach to the financial statements the valuation for testing the decrease in value as mentioned, since with reference to the assumptions used to determine the value in use of the described unit, the management believes that there are no possible changes in the key assumptions listed above, that could lead to a substantial decrease in value of goodwill in the financial statements

Information Technologies (IT) Software solutions and services in USA:

Total goodwill as of December 31, 2022, in the amount of NIS 272,219 thousand (total goodwill as of December 31, 2021- NIS 248,879 thousand). The recoverable amount of the software solutions and services unit was determined based on the value in use which is calculated according to the expected estimated future cash flows from this cash-generating unit, as determined according to the budget for the next five years and approved by the Group's management. The key assumptions used in calculating the value in use by the Group's management consist of: discount rate. The discount rate underlying the cash flows is 10.1%, whereby the calculation of the average capital price takes into consideration a gross average debt price of about 5.75% and equity price of about 10.75%. According to the valuation, the recoverable amount is NIS 812 million.
The cash flows for the period exceeding the five years budget will be estimated using a fixed growth rate of 3%, representing half of the growth rate of the operation in the forecast period for 2023-2027.

NOTE 10:- CREDIT FROM BANKS AND OTHERS (In thousand NIS)

A. Short term credit

	Linkage basis	Interest Rate Fixed or Variable	Interest Rate %	December 31, 2022	December 31, 2021
				NIS in thousands	
Bank overdrafts and ON CALL	Unlinked	Variable	P-1.5% - P+0.08%	34,564	54,204
Commercial securities not listed	Unlinked	Variable	BOI rate+0.5	200,000	200,000
Current maturities of long-term loans from banks	Linked to USD	Variable	Libor +2.2	-	622
Current maturities of long-term loans from banks	Unlinked	Fixed	1.4-3.98	236,890	229,818
				471,454	**484,644**

B. Long term credit from banks and others

Linkage basis	Interest Rate Fixed or Variable	Interest Rate %	December 31, 2022 Total	December 31, 2022 Current maturities	2022 Total less current maturities	2021 Total less current maturities
			NIS in thousands			
					-	-
Unlinked	Fixed	1.4-3.98	**511,415**	**236,890**	**274,525**	**424,112**

C. Schedule of payments after the report date

	December 31, 2022	December 31, 2021
	NIS in thousands	
First year (Current maturities)	236,890	230,440
Second year	179,003	199,505
Third year	78,348	148,845
Fourth year	17,174	58,620
Fifth year and thereafter	-	17,142
	511,415	**654,552**

NOTE 11:- TRADE PAYABLES

	December 31, 2022	December 31, 2021
	NIS in thousands	
Open accounts:		
In NIS	150,731	156,656
In foreign currency	162,288	105,676
Checks payable	59,074	44,906
Accrued expenses	248,511	226,870
Related parties	5	84
	620,609	**534,192**

NOTE 12:- OTHER ACCOUNTS PAYABLE

	December 31, 2022	December 31, 2021
	NIS in thousands	
Government authorities	49,226	55,756
Advances from customers	3,897	540
Non-Controlling Interest Shareholders	-	1,353
Other accounts payable	13,183	6,510
	66,306	64,159

NOTE 13:- LEASES

Disclosures for lease transactions in which the company is a lessee:

The Company has entered into leases of buildings and vehicles which are used for the Company's operations.

Leases of buildings have lease terms of between 3 and 5years whereas leases of machinery and equipment and vehicles have lease terms of 3 years.

Some of the leases entered into by the Company include extension and/or termination options and variable lease payments.

As for lease engagements, see notes 16c (1) and 16c (2) below.

a. Information on leases:

	Year ended December 31, 2022	**Year ended December 31, 2021**
	NIS in thousands	
Interest expense on lease liabilities	6,566	5,086
Total negative cash flow for leases	107,135	91,137

b. Disclosures in respect of right-of-use assets:

	Vehicles	Land and buildings	Total
		NIS in thousands	
Cost:			
Balance as of January 1, 2022	414,140	835,224	365,249
Additions during the year:			
New leases	990,67	71,359	134,349
Foreign currency translation adjustments and CPI	3,244	246,5	8,490
Disposals during the year:			
Termination of leases	(72,598)	(40,985)	(113,583)
Balance as of December 31, 2022	139,050	60,4552	399,505
Accumulated amortization:			
Balance as of January 1, 2022	018,90	559,132	222,577
Additions during the year:			
Depreciation and amortization	43,481	62,609	106,090
Disposals during the year:			
Termination of leases	,828)2(7	(36,678)	(109,506)
Balance as of December 31, 2022	60,671	58,4901	219,161
Net Balance as of December 31, 2022	78,379	101,965	180,344

NOTE 13:- LEASES (CONT.)

c. Maturity analysis of undiscounted future lease payments receivable for operating leases:

	Year ended December 31, 2022	Year ended December 31, 2021
	NIS in thousands	
First year	105,853	79,137
Second year	48,626	54,598
Third year and thereafter	27,129	11,060
Total undiscounted lease payments	181,608	144,795
Current maturities	105,853	79,137
Non -current costs	75,755	65,658

NOTE 14:- EMPLOYEE BENEFIT LIABILITIES

Employee benefits consist of post-employment benefits, other long-term benefits, and termination benefits.

a. Post-employment benefits:

According to the labor laws and Severance Pay Law in Israel, the Group is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to section 14 of the Severance Pay Law, as specified below. The Group's liability is accounted for as a post-employment benefit. The computation of the Group's employee benefit liability is made according to the current employment contract based on the employee's salary and employment term which establish the entitlement to receive the compensation.

The post-employment employee benefits are normally financed by contributions classified as defined benefit plan or defined contribution plan, as detailed below.

1. Defined contribution plans:
   Section 14 to the Severance Pay Law, 1963 applies to part of the compensation payments, pursuant to which the fixed contributions paid by the Group into pension funds and/or policies of insurance companies release the Group from any additional liability to employees for whom said contributions were made. These contributions and contributions for compensation represent defined contribution plans.

2. Defined benefit plans:
   The Group accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in central severance pay funds and in qualifying insurance policies.

3. Long term benefit plan:
   According to the Company's agreements with a senior officer, he is entitled to an adaptation bonus in the amount of 12 salaries. This liability has been recognized as a defined benefit. Starting on October 1, 2020, the adaptation bonus applied.

NOTE 14:- EMPLOYEE BENEFIT LIABILITIES (CONT.)

b. Composition of defined benefit plans:

	December 31, 2022	December 31, 2021
	NIS in thousands	
Present value of financed obligations	252,746	304,502
Fair value of plan assets	(244,476)	(285,480)
Present value of non-financed obligations, net	**8,270**	**19,022**

c. The movement in the fair value of the plan assets:

	2022	2021
	NIS in thousands	
Balance as of January 1	285,480	268,072
Expected return on plan assets	6,816	4,946
Actuarial gain from defined benefit plans	(8,980)	20,228
Contributions by employer	15,710	19,205
Benefits paid	(54,550)	(44,354)
Business combinations and others	-	17,383
Balance as of December 31	**244,476**	**285,480**

d. Changes in the present value of defined benefit obligation:

	2022	2021
	NIS in thousands	
Balance as of January 1,	304,502	298,491
Current service cost	18,062	22,480
Interest expense	7,545	6,529
Net actuarial gain (losses)	(20,568)	8,518
Benefits paid	(56,795)	(47,347)
Business combinations and others	-	15,831
Balance as of December 31,	**252,746**	**304,502**

e. Expenses carried to the statement of comprehensive income:

	Year ended December 31, 2022	2021	2020
	NIS in thousands		
Current service cost	18,062	22,480	21,443
Interest cost	7,545	6,529	6,198
Expected return on plan assets	(6,816)	(4,946)	(4,818)
Actuarial gains	(11,588)	(11,710)	(2,224)
Total expense recognized in comprehensive income	7,203	12,353	20,599

NOTE 14:- EMPLOYEE BENEFIT LIABILITIES (CONT.)

f. The expenses are included in the statement of comprehensive income in the following items:

	Year ended December 31,		
	2022	2021	2020
	NIS in thousands		
Cost of sales	16,573	21,177	20,084
Selling and marketing expenses	376	480	456
General and administrative expenses	1,878	2,406	2,283

g. The principal actuarial assumptions:

	Year ended December 31,		
	2022	2021	2020
	%		
Discount rate of the plan liabilities	2.69	2.18	2.15
Expected real salary increases rate	0-4	0-4	0-4

h. Amounts, timing, and uncertainties involving future cash flows:

	Defined benefit obligation
	NIS in thousands
As of December 31, 2022:	
Sensitivity test for changes in the expected rate of salary increase:	
The change as a result of:	
Salary increase of 1%	(1,222)
Salary decrease of 1%	979
Sensitivity test for changes in the discount rate of the plan assets and liability:	
The change as a result of:	
Increase of 1% in discount rate	918
Decrease of 1% in discount rate	(1,147)

i. Expenses in the period in respect of defined contribution plans:

	Year ended December 31,		
	2022	2021	2020
	NIS in thousands		
Total expense recognized in respect of defined contribution plans	100,602	91,400	79,002

NOTE 15- TAXES ON INCOME

a. **<u>Tax laws applicable to the Group companies</u>**:

Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting in 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains such as for the sale of property (betterment) and securities, continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancellation of the inflationary additions and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year).

b. **<u>Tax rates applicable to the Group:</u>**

1. The Israeli corporate tax rate was 23% in 2020-2022
   Companies are levied by Real Capital Tax, at the rate of corporate income tax, in the period of disposal.

2. **The main tax rates applicable to the subsidiaries whose place of incorporation is outside Israel is:**
   Companies incorporated in the U.S. - weighted tax at the rate of about 27% (Federal tax, State tax, and Municipal tax of the city where the company operates).

c. **<u>Structure changes in the Group</u>:**

On June 11, 2020, a tax ruling was signed determining that effective December 31, 2019, as part of a merger process, 3 companies in the Group will transfer all their assets and liabilities, subject to the provisions of section 103 of the Income Tax Ordinance.

During the fourth quarter of 2022, the company made a structural change in connection with its holdings in some of the subsidiaries in the US. Before the date of the structural change, the company held, indirectly through subsidiaries, the full rights in Matrix IFS and Network Infrastructure Technologies Inc. (through Matrix IFS) and in 60% of the rights in Matrix Global Services USA Inc. After the structural change, which was carried out without exchange of cash, all the rights in the subsidiaries are held as detailed above under the entity Matrix US Holding Llc..(established for this purpose), with the company holding 95% of the rights. The aforementioned structural change was handled as a transaction with Non-Control Interest (against Equity Fund) without impact on the company's profit and loss.

d. **<u>Final tax assessments</u>:**

The Company has received final tax assessments (or assessments that are deemed final) through and including the 2018 tax year. The subsidiaries have received final tax assessments (or assessments that are deemed final) through and including the 2017 tax year.

NOTE 15:- TAXES ON INCOME (CONT.)

e. Carryforward losses for tax purposes and other temporary differences:

Carryforward net operating tax losses and capital losses of the Group amounts to approximately NIS 110,185 thousand as of December 31, 2022. The majority of the Group's carryforward losses result from Israeli companies, therefore, the utilization period of these losses is unlimited.

Deferred tax assets relating to carry forward of operating losses of approximately NIS 19,235 thousand were not recognized because their utilization in the foreseeable future is not probable.

f. Deferred taxes:

1.Composition:

	Provision for vacation	Fixed assets and intangible assets	Carryforward tax losses	Employee benefits	Temporary differences due to cash basis adjustment	Allowance for doubtful accounts	Employee options	Other temporary differences	Leases	Total
Balance as of January 1, 2020	11,236	(20,814)	15,594	6,652	(742)	1,478	1,424	680	-	15,508
Initially consolidated company	1,092	(13,176)	-	503	-	209	-	911	-	(10,461)
Capital Fund	-	133	-	(512)	-	-	260	-	-	(119)
Change recorded in the statement of comprehensive income	4,746	4,521	(1,299)	353	57	581	(130)	(302)	949	9,476
Balance as of January 1, 2021	17,074	(29,336)	14,295	6,996	(685)	2,268	1,554	1,289	949	14,404
Initially consolidated company	129	(2,546)	-	(387)	-	-	-	-	-	(2,804)
Adjustments		(316)								(316)
Capital Fund	-	-	-	(2,693)	23	-	236	-	(166)	(2,600)
Change recorded in the statement of comprehensive income	164	5,061	796	459	-	236	(691)	551	(294)	6,282
Balance as of December 31, 2021	17,367	(27,137)	15,091	4,375	(662)	2,504	1,099	1,840	489	14,966
Initially consolidated company	346	(2,761)	1,987	50		23	-	(44)	-	(399)
Loss of Control	(223)	-	-	-	-	-	-	-	-	(223)
Adjustments	-	(48)	-	-	-	-	-	-	-	(48)
Capital Fund	-	-	-	(2,665)	-	-	(420)	24	-	(3,061)
Change recorded in the statement of comprehensive income	1,375	4,713	3,840	142	662	442	(451)	(3,353)	(219)	7,151
Balance as of December 31, 2022	18,865	(25,233)	20,918	1,902	-	2,969	228	(1,557)	294	18,386

* Immaterial adjustment of comparative data

NOTE 15:- TAXES ON INCOME (CONT.)

2. The deferred taxes are computed at the tax rate of 23% based on the tax rates that are expected to apply to the Group upon reversal of the temporary differences in their respect 2020-2021 23% and 27% in USA assets.

g. Taxes on income included in the statement of comprehensive income:

	Year ended December 31,		
	2022	2021	2020
	NIS in thousands		
Current taxes	108,952	71,486	64,473
Deferred taxes	(7,151)	(6,282)	(9,476)
Taxes in respect of previous years	(1,516)	242	1,084
	100,285	65,446	56,081

h. Taxes on income relating to other comprehensive income items:

	Year ended December 31,		
	2022	2021	2020
	NIS in thousands		
Tax benefit on actuarial gains	(2,665)	(2,693))	(512)

i. Theoretical tax:

The reconciliation between the tax expense, assuming that all the income, expenses, gains and losses in the comprehensive income were taxed at the statutory tax rate and the taxes on income recorded in comprehensive income is as follows:

	Year ended December 31,		
	2022	2021	2020
	NIS in thousands		
Income before taxes on income	454,766	284,194	246,931
Statutory tax rate	23%	23%	23%
Tax computed at the statutory tax rate	104,596	65,365	56,794
Increase (decrease) in taxes on income resulting from the following:			
Unrecognized temporary differences	(181)	(382)	-
Unrecognized expenses and depreciation for tax purposes, net	4,365	3,263	408
First-time creation of deferred taxes	(8,299)	(4,617)	(3,699)
Deferred taxes recorded at difference tax rates	1,320	1,575	1,494
Taxes in respect of previous years	(1,516)	242	1,084
	100,285	**65,446**	**56,081**

NOTE 16:- COLLATERAL, GUARANTEES, CONTIGENT LIABILITIES, AND COMMITMENTS

a. Collaterals:

As of December 31, 2022, the Group has not recorded any collateral.

b. Contingent liabilities:

Litigation:

Several legal claims have been filed against the Company and the subsidiaries in the ordinary course of business in the reporting period and in previous periods in an aggregate of approximately NIS 12.7 million. The Group's management estimates, based on its legal counsel opinion regarding the chances of these claims, the provisions included in the financial statements for covering any potential exposure arising from these claims are adequate.

c. Engagements:

1. In October 2018, The Company has renewed a real estate lease agreement with Ofer Brothers Properties Ltd. according to which the Company leases office spaces in Herzliya, Israel. The lease term is expected to end in October 2023. The cost of rent is 10 million NIS yearly.

2. In September 2015, John Bryce ("JB" – the Company's subsidiary) has entered into a real-estate lease agreement with an unrelated third party for a period of 8 years and an option for additional 5 years. The expected lease fees are approximately NIS 7 million per annum. With regard to the agreement, the Company provided a guarantee for the fulfillment of JB's liabilities.

3. The Company and its subsidiaries insure themselves in bodily injury and property damage insurance policies, including third party, professional liability employer's liability, and designated cyber insurance policies.

   The Company's directors and officers are insured under D&O policy for insurance of directors and officers including D&O side A DIC policy (another layer of protection for officers) for a period of 12 months from June 17, 2022(on June 16, 2022, the Company's organs confirmed the company's participation in the aforementioned policy).

4. In January 2020, the company entered into a lease agreement in connection with a new office building in Kfar Saba, for a period of 10 years, with two extension options of 5 years each. The building includes 15 office floors with an area of approximately 16,000 square meters and 3 floors of an underground parking lot with an area of approximately 14,000 square meters and is planned to serve as the company's headquarters and its other branches that will be united under one complex. The move is expected to take place in the last quarter of 2023. The expected rental cost is approximately NIS 20 million per year.

NOTE 16:- COLLATERAL, GUARANTEES, CONTIGENT LIABILITIES AND COMMITMENTS (CONT.)

d. Engagement with the Company's CEO:

During 2022, Mr. Gutman provided management services to the Company in accordance with the Management Services Agreement, approved on October 29, 2015, with Revava Management Ltd. through which Mr. Moti Gutman provides the Company CEO services, effective from January 1, 2018, until December 31, 2022. On December 28, 2012, the Company entered into a new agreement for the provision of management services with a company under the control of Mr. Gutman as aforesaid, for a period of five years, from January 1, 2023, to December 31, 2027 (the "New Agreement"). According to the new agreement, on February 1, 2023, the Company granted to Mr. Guttman, for no consideration, 256,890 restricted share (the "RS's") exercisable into 375,000 ordinary shares of the Company with no exercise price. The RS's shall vest into shares in four equal portions commencing on December 31, 2024, in such a way that 40% will mature on December 31, 2024, and the rest in equal parts every subsequent year until December 31, 2027, but in any case not before the date of publication of the company's yearly financial statements for the previous year.

e. Guarantees:

1. The Company and the subsidiaries provided each other cross guarantees.

2. The Company and the subsidiaries provided performance guarantees in favor of customers totaling approximately NIS 133.2 million.

3. The Company and the subsidiaries provided guarantees for the payment of rent totaling approximately NIS 21.3 million.

NOTE 17:- EQUITY

a. Composition of share capital:

	December 31, 2022		December 31, 2021	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Ordinary shares of NIS 1 par value each	100,000	63,548	100,000	63,248

b. Movement in share capital:

	2022	2021	2020
	Ordinary shares of NIS 1 par value each		
	Number of shares		
Balance as of January 1	63,248,369	62,790,767	62,739,389
Exercise of options and RSU's into shares	299,772	457,602	51,378
Balance as of December 31	63,548,141	63,248,369	62,790,767

c. Rights attached to shares:

Ordinary shares of NIS 1 par value each confer their holders voting rights at the general meeting, rights to dividends, and rights to participate in the distribution of the Company's assets upon liquidation. The shares are quoted on the Tel-Aviv Stock Exchange.

d. Treasury shares - Company shares held by the Company and subsidiaries:

The holdings of the Company and its subsidiaries in the Company's shares are as follows:

	December 31,	
	2022	2021
	%	
Number of shares held	653,860	653,860
Percentage of issued share capital	1.028	1.041

NOTE 17:- EQUITY (CONT.)

e. Dividends paid to the shareholders:

The following table presents the dividend distributions effected in the reporting periods:

Date of distribution decision by the Board	Actual date of distribution	Amount distributed per share (in Agorot)	Overall amount distributed (NIS in thousands)
March 11, 2021	March 30 2021	64	40,060
May 12, 2021	June 30, 2021	58	36,304
August 11, 2021	September 5, 2021	60	37,557
November 11, 2021	November 28, 2021	52	32,550
March 22, 2022	April 12, 2022	65	40,874
June 1 2022	June 23, 2022	71	44,655
August 17, 2022	August 28, 2022	261	164,154
November 17, 2022	December 4, 2022	55	34,592

The Company's dividend distribution policy is to distribute annually dividend at a rate of up to 75% of its annual net income. The dividend will be distributed on a quarterly basis. Subject to compliance with the distribution criteria, according to the law on the relevant date.

f. Capital management in the Group:

1. The Group's principal capital management objective is to secure the ability to create a fixed return to the shareholders through the capital increase or distributions and through payment of an annual dividend. In order to meet this objective, the Group strives to maintain a leverage ratio that reasonably balances the risks and rewards and to maintain a financial base that will allow the Group to respond to its investment and working capital needs. In making decisions regarding changes in the Group's capital structure aimed at achieving this objective, whether by revising the dividend distribution policy, issuing capital, or reducing the Group's debt, the Group not only considers its short-term position but also its long-term targets.

2. In the management of the Capital/Liabilities structure, the Group monitors in a current basis, the leverage ratio (as the ratio between financial liabilities and the Group's capital). Also, the company works to maintain an effective and adequate leverage ratio that combines the interests of the shareholders and the financial debt holders.
   In addition, the Group performs in such manner to create a proper balance between long/short term financial debt and a fixed/variable interest rate, while maintaining financial balances and bank credit facilities that can be utilized.

NOTE 17:- EQUITY (CONT.)

3. The Group's policy is to meet the financial covenants undertaken with banks. As of December 31, 2022, and 2021.

Condensed quantitative data on differences managed by the Company in respect of:

	December 31,	
	2022	2021
	NIS in thousands	
Cash and cash equivalents	839,313	534,132
Liabilities to banks and others	(1,221,160)	(908,756)
Net debt	(381,847)	(374,624)
Total debts	1,221,160	908,756
Ratio of debt to total balance sheet	30.5%	26.4%
Ratio of net debt to total balance sheet	9.5%	10.9%
Total capital	964,875	878,054
Capital to total balance sheet ratio	24.1%	25.5%

NOTE 18:- SHARE-BASED PAYMENT

a. Expenses recognized in the financial statements:

The following table describe the expense recognized in the financial statements for employee services received:

	Year ended December 31,		
	2022	2021	2020
	NIS in thousands		
Equity-settled share-based payment plans	1,330	3,069	7,364

The share-based payment transactions that the Company granted to its employees are described below.

NOTE 18:- SHARE-BASED PAYMENT (CONT.)

b. The Company's existing share-based payment plans:

Grant of Restricted stock units (RSU) to the Company's CEO:

On January 16, 2018 the Company's approved an agreement with Revava Management company Ltd. through which Mr. Moti Gutman provides services to the company as a CEO until December 31, 2022, in which among other things, the Company granted Mr. Gutman 256,890 restricted share units (RSU)exercisable into 256,890 ordinary shares of the company without an exercise price. The RSU will vest in five equal portions of 51,378 RSU units, each portion at December 31 of each agreement year, but not before the issuance of the Company's financial statements for the past year, and subject to certain conditions. In 2022, 51,378 restricted share units (RSU) were vested and exercised. As per the Balance sheet date, Mr. Gutman holds 51,378 RSU. For additional information, see Note 18 c` bellow.

Share-based payment plan for senior managers:

On January 1, 2019, after receiving the Compensation Committee's approval, the Company's Board of Directors approved the allocation of 1,440,000 options exercisable up to 1,440,000 ordinary shares of NIS 1 par value for free, to 20 officers and senior employees of the Company or of its controlled companies. The exercise of the options at the date of grant is NIS 41.7. The price is subject to adjustment, including when distributing a dividend.

At the actual exercise, shares will only be issued, according to the value of the benefit embodied in the options ("net exercise mechanism"), the company will receive no consideration in cash.

On February 12, 2019, after the approval of the Compensation Committee, and the Company's Board of Directors, the General Meeting approved the issuance of 80,000 options exercisable up to 80,000 ordinary shares, 1 for no consideration to the President and Deputy Chairman of the Company's Board of Directors. The exercise price of the option was NIS 43.16 at the date of grant and is subject to adjustments, including when distributing a dividend.

The fair value of the options is estimated on the day of grant in accordance with the binomial model based on the terms which are: the risk-free interest rate is 0.5% -1.6%, the early exercise factor is 70% and the expected volatility is 24%.
The contractual life of the stock options is 5 years from the grant date.

NOTE 18:- SHARE-BASED PAYMENT (CONT.)

c. Movement during the year:

The following table lists the number of share options, the weighted average exercise prices of share options and modification in employee option plans during the current year:

	2022		2021		2020	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
	NIS in thousands					
Share options and RSU outstanding at beginning of year	862,756	35.50	1,674,134	34.41	1,725,512	35.15
Share options forfeited during the year	(12,500)	35.48	-	-	-	-
Share options and RSU exercised during the year	(451,378)	31.54	(811,378)	35.49	(51,378)	-
Share options and RSU outstanding at end of year	398,878	36.49	862,756	35.50	1,674,134	34.41
Share options and RSU exercisable at end of year	51,378	-	51,378	-	51,378	35.15

After the date of the Financial Statements (December 31, 2022), on January 1, 2023, all the outstanding Management options were exercised.

d. Measurement of the fair value of equity-settled share options:

The Company uses the Binomial model when measuring the fair value of equity-settled share options. The measurement was made at the grant of equity-settled share options since the options were granted to employees.

NOTE 19:- DEBENTURES

A. Issuance of debentures (series B)

On September 18, the company issued debentures (series B) in a total amount of NIS 295,249 thousand net proceeds (after deducting commissions and direct costs for the issuance of the debentures) in the amount of approximately NIS 293 million. The bond fund (series B) will be repaid in 14 (fourteen) equal semi-annual payments, to be paid on February 1 and August 1, starting on August 1, 2023 and ending on February 1, 2030. The debentures bear interest at an annual rate of 4.1% which will be paid twice a year, on February 1 and August 1, starting from February 1, 2023 until February 1, 2030. The debentures are not secured by a lien and the principal and interest of the debentures are not linked to any index or currency.

On December 4, 2022, the issuing company issued debentures (series B) by way of series expansion, for a total amount of 180,366 thousand NIS. in net consideration of approximately NIS 178.4 million.

As of the date of the report, the remaining interest to be paid for the debentures is approximately 4,291 thousand NIS.

NOTE 19:- DEBENTURES (CONT.)

1) Covenants that are not met will give the holders the right to put the bond up for immediate repayment:

As part of the issuance of the debentures (series B), the company pledged that as long as the debentures have not yet been paid in full, it will meet the financial covenants detailed below:

- o The consolidated net financial debt to total balance sheet ratio according to the company's consolidated financial statements shall not exceed 45% for a period of two consecutive quarters.
- o Consolidated net financial debt to adjusted EBITDA ratio according to the company's consolidated financial statements shall not exceed 5 for a period of two consecutive quarters.
- o The company's equity, according to the company's consolidated financial statements, will not be less than 275 million NIS for a period of two consecutive quarters.

In this regard, it should be clarified that the highlighted terms indicated above were defined in the deed of trust for the debentures (series B) in accordance with the characteristics of the company.
As of the date of the report, the company meets the financial condition.
It should be noted that in the deed of trust for the debentures (series B) condition were established, failure to comply with which will result in compensation in the interest rate, condition

2) Main reasons for making the bond available for immediate repayment:

The debentures (series B) include reasons for making the debentures available for immediate repayment, provided that the period set for the correction of the said events has passed (as stipulated in the terms of the debentures). Below are the main events as mentioned:

- o The lack of compliance with the financial standards for immediate repayment, as detailed above.
- o If control is transferred (as defined in section 268 of the Companies Law) in the company, except if there is no decrease in the rating of the debentures (series B) in relation to the lower of: the rating at the time of issuance or the rating before the transfer of control.
- o If the bond rating is lower than BBB minus.
- o Changing the main activity of the company in such a way that the main activity of the company (according to the assets test) will not be in the area of activities the company was engaged in at the time of the issuance of the debentures.
- o Another traded bond series of the company was put up for immediate repayment without the initiative of the company or a non-traded bond series (one or more) or a loan (one or more) that remained at the time it was put up for immediate repayment, is over NIS 275 million, and the demand for repayment immediately as mentioned was not removed/dissolved, within 30 days.
- o Other acceptable grounds for making debentures immediately payable, such as liquidation, collection, termination of rating, termination of marketability, etc.

B. Book value versus fair value (in thousands of NIS)

Balance of Book Value December 31,2022	**Fair Value December 31,2022**
475,181	475,615

NOTE 19:- DEBENTURES (CONT.)

Below are the repayment dates of the debenture for December 31, 2022:

	December 31,2022
	(in thousands of NIS)
First Year- (Current maturities)	49,833
Second year	80,442
Third year	74,447
Fourth year	68,823
Fifth year and beyond	201,636
	475,181

NOTE 20:- FINANCIAL INSTRUMENTS

a. Classification of financial assets and financial liabilities:

The financial assets and financial liabilities in the statement of financial position are classified by groups of financial instruments pursuant to IFRS 9:

	December 31,	
	2022	2021
	NIS in thousands	
Financial assets:		
Financial assets at Fair value through Profit and loss		
Financial assets which destination was initially recognized	16,758	-
Loans and receivables*	1,510,687	1,433,800
Financial liabilities:		
Financial liabilities measured at amortized cost	2,493,095	2,023,558
Financial liabilities Designated as such upon initial recognition	124,697	122,962

(*) The depreciated cost of the company's financial instruments is a reasonable approximation of their fair value.

b. Financial risks factors:

The Group's activities expose it to various financial risks such as market risk (including foreign exchange risk, fair value risk in respect of interest rate and price risk), credit risk, liquidity risk, and cash flow risk in respect of interest rate. The Group's comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Group's financial performance.

The Board has not established specific policies with respect to certain exposures to risks, but in such matters, the Group's finance department, managed by the Company's CFO, identifies and assesses the financial risks, such as credit risk, foreign exchange risk, interest rate risk (including the use of derivative financial instruments, non-derivative financial instruments and investment of exceeding liquid cash flows).

NOTE 20:- FINANCIAL INSTRUMENTS (CONT.)

1. Market risks:

   a) Foreign currency risk:

   Foreign currency risk arises from transactions, recognized assets, and recognized liabilities denominated in foreign currency that is not the functional currency and from net investments in foreign operations.

   The Group's policy is to allow the Group entities to pay liabilities denominated in their functional currency (mainly NIS) using the cash flows generated by each entity's activities. When the Group entities have liabilities denominated in foreign currency that is not their functional currency (and have no sufficient cash balances in this currency to settle the liabilities), the Group, if possible, transfers cash balances from one Group entity to the other.

   The software products marketing and implementation segment is exposed to currency risk in respect of current purchases from U.S. suppliers. These acquisitions occur on a regular basis. The effect of fluctuations in the exchange rates on trade payables denominated in dollars is offset by the balance of trade receivables denominated in dollars. In addition, the Group assesses, and performs hedging transactions in order to protect from fluctuation of foreign exchange currencies. (as of the reporting date it is no material, in relation to the whole Group`s operations).

   As of the reporting date, the Group has a net assets balance denominated in dollars, totaling NIS 234,620 thousand (as of December 31, 2021 - NIS 128,437 thousand).

   The Group has an investment in a foreign operation, whose net financial assets are exposed to possible fluctuations in the U.S. dollar exchange rate. The currency exposure arising from the foreign operation's net financial assets in the U.S. is mainly managed by the CFO.

   b) Interest rate risk:

   The Group's interest rate risk mainly arises from long-term loans received. Loans that bear variable interest rates (including On Call loans, and Commercial securities) expose the Group to interest rate risk in respect of cash flows. The majority of long-term loans received in the last two years, including Debentures (Serie B) that the company issued during 2022, were at fixed interest, which minimizes the exposure to interest.

NOTE 20:- FINANCIAL INSTRUMENTS (CONT.)

Details of the interest type of the Group's interest-bearing financial instruments:

	December 31,	
	2022	2021
	NIS in thousands	
Fixed interest instruments:		
Financial liabilities	(1,168,205)	(798,726)
Variable interest instruments:		
Financial liabilities	(234,563)	(254,825)

2. Credit risk:

Credit risk is the risk that the counterparty will not meet its obligations as a customer or under a financial instrument leading to a loss to the Group. Credit risk mainly arises from the Group's customers and from investments in corporate debentures.

a) Trade receivables:

Before accepting new customers, the Group runs a credit check on the prospective customers using a reliable outside source. This information is used to determine payment terms and credit limits which are approved based on the size of the customer. Cases of exceeding credit limits are approved (according to procedures) depending on each specific case and based on past experience with the specific customer. Customers that consistently fail to meet their credit terms are required to make advance payments for any additional purchases until their credit rating can be re-reestablished.
The examination of provision for impairment is determined at each specific reporting date.

b) Investment in cash and cash equivalents:

The Group holds cash and cash equivalents, short and long-term investments, and other financial instruments in various financial institutions. According to the Group's policy, ongoing credit evaluations are made to determine the credit strength of those financial institutions.

As of December 31, 2022, cash and cash equivalents total approximately NIS 839,313 thousand (as of December 31, 2021 - NIS 534,132 thousand).

NOTE 20:- FINANCIAL INSTRUMENTS (CONT.)

3. Liquidity risk:

Liquidity risk arises from managing the Group's working capital as well as from financial expenses and principal payments of the Group's debt instruments. Liquidity risk consists of the risk that the Group will have difficulty in fulfilling obligations relating to financial liabilities.

The Group's policy is to ascertain constant cash adequacy needed for settling its liabilities when due. For this purpose, the Group aims to hold cash balances (or adequate credit lines) that will meet anticipated demands. The Group finances business combinations using long-term loans for average periods of 3-6 years.
The company apply to a rating company every year. As of December 31, 2022, the company has an Aa3 issuer rating with a stable rating.

The Group examines cash flow forecasts on a monthly basis as well as information regarding cash balances and the Group's investments in corporate debentures. As of the reporting date, these forecasts indicate that the Group can expect sufficient liquid sources for covering its entire liabilities under reasonable assumptions.

Table (1) below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (including interest payments):

December 31, 2022:

	First year	Second year	Third year	Fourth year	Fifth year	Total
	NIS in thousands					
Trade payables	620,609	--	-	-	-	620,609
Other payables	62,409	--	-	-	-	62,409
Employee benefit liabilities	407,309	--	-	-	-	407,309
Loans from banks and other credit suppliers (*)	471,454	179,003	78,348	17,174	-	745,979
Leases	105,853	48,626	27,129	-	-	181,608
Debenture	49,833	80,442	74,447	68,823	201,636	475,181
	1,717,467	308,071	179,924	85,997	201,636	2,493,095

December 31, 2021:

	First year	Second year	Third year	Fourth year	Fifth year	Total
	NIS in thousands					
Revolving bank balances	509	-	-	-	-	509
Trade payables	523,139	-	-	-	-	523,139
Other payables	63,619	-	-	-	-	63,619
Employee benefit liabilities	382,740	-	-	-	-	382,740
Loans from banks and other credit suppliers(*)	484,644	199,505	148,845	58,620	17,142	908,756
Leases	79,137	54,598	11,060	-	-	144,795
	1,533,788	254,103	159,905	58,620	17,142	2,023,558

The above tables do not include liabilities in respect of business combinations.
(*)-As part of the short-term repayments (first year),” Commercial securities” are included, which can be asked to be repaid by their holders at any time, and which will face final repayment in the month of November 2024.

NOTE 20:- FINANCIAL INSTRUMENTS (CONT.)

c. Fair value:

The carrying amount of cash and cash equivalents, short-term investments, trade receivables, other accounts receivable, short-term loans granted, credit from banks and others, trade payables and others and other accounts payable approximates their fair value.

Marketable assets and liabilities	- Based on quoted prices in an active market as of the reporting date.
Interest-bearing short-term non-marketable assets and liabilities with fixed maturities	- The carrying amount reflects the fair value as of the reporting date since their average interest rate is not materially different from standard market rate for similar items as of the reporting date.
Assets and liabilities with no maturities	- Fair value is determined at the amount payable upon demand on the reporting date.
Assets and liabilities at variable interest	- The fair value of assets and liabilities at variable interest which do not involve a material credit risk is based on their carrying amount.
Long-term loans at fixed interest	- The fair value of long-term loans bearing fixed interest is based on the calculation of the present value of cash flows using the standard interest rate for similar loans with similar characteristics.
Put options of non-controlling interests	- The fair value is based on market price. In the absence of market price, the fair value is based on economic models.
Guarantees and liabilities to grant loans	- The fair value is based on the amount payable as of the reporting date for similar engagements taking into consideration the remaining period of the agreement and the credit strength of the parties to the contract.

d. Classification of financial instruments by fair value hierarchy:

The financial instruments presented in the statement of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

Level 1	- quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	- inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
Level 3	- inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

NOTE 20:- FINANCIAL INSTRUMENTS (CONT.)

December 31, 2022:

Financial assets measured at fair value:

	Level 1	Level 2	Level 3
		NIS in thousands	
Financial assets at fair value through profit or loss:			
Investment in Affiliates	-	-	16,758
	-	**-**	**16,758**

December 31, 2022:

Financial liabilities measured at fair value:

	Level 1	Level 2	Level 3
		NIS in thousands	
Financial liabilities at fair value through profit or loss:			
Put options of non-controlling interests	-	-	100,545
Liabilities in respect of business combinations	-	-	24,152
	-	**-**	**124,697**

December 31, 2021:

Financial liabilities measured at fair value:

	Level 1	Level 2	Level 3
		NIS in thousands	
Financial liabilities at fair value through profit or loss:			
Put options of non-controlling interests	-	-	112,420
Liabilities in respect of business combinations	-	-	10,542
	-	**-**	**122,962**

NOTE 20:- FINANCIAL INSTRUMENTS (CONT.)

e. Sensitivity tests relating to changes in market factors:

	December 31, 2022	December 31, 2021
	NIS in thousands	
Sensitivity test to changes in interest rates:		
Profit (loss) from the change:		
Increase of 1% in interest	(2,346)	(2,548)
Decrease of 1% in interest	2,346	2,548

	December 31, 2022	December 31, 2021
	NIS in thousands	
Sensitivity test to changes in U.S. dollar exchange rates:		
Profit (loss) from the change:		
Increase of 5% in exchange rate	11,731	6,441
Decrease of 5% in exchange rate	(11,731)	(6,441)

Sensitivity tests and principal work assumptions:

The selected changes in the relevant risk variables were determined based on management's estimate as to reasonable possible changes in these risk variables.

The Group has performed sensitivity tests of principal market risk factors that are liable to affect its reported operating results or financial position. The sensitivity tests present the profit or loss and/or change in equity (before tax) in respect of each financial instrument for the relevant risk variable chosen for that instrument as of each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial condition of each risk with reference to the functional currency and assuming that all the other variables are constant.

The Group is not exposed to interest rate risk in respect of long-term loans with fixed interest.

The sensitivity test for long-term loans with variable interest is performed only on the variable component of interest.

NOTE 20:- FINANCIAL INSTRUMENTS (CONT.)

f. Changes in liabilities arising from financing activities:

2022

	Balance at January 1, 2022	Receipts	Payments	Net cash flows	Effect of changes in exchange rates	Effect of changes in fair value	Distribution of dividends to non-controlling interests	Entrance to Consolidation	Other changes	Balance at December 31, 2022
	NIS in thousands									
Short-term loans	254,204	-	-	(24,441)	-	-	-	4,801	-	234,564
Long-term loans (including maturities)	654,552	90,000	(233,159)	-	-	-	-	-	22	511,415
Debenture	-	471,476	-	-	-	-	-	-	3,705	475,181
Put options of non-controlling interests	112,420	-	-	-	-	12,159	(24,578)	-	544	100,545
Finance lease obligation	144,795	-	(107,135)	-	-	--	-	-	143,950	181,610
Liabilities in respect for business combination	10,542	--	(3,132)	-	837	416	--	14,751	737	24,151
Total liabilities arising financing activities	1,176,513	561,476	(343,426)	(24,441)	837	12,575	(24,578)	19,552	148,958	1,527,466

2021

	Balance at January 1, 2021	Receipts	Payments	Net cash flows	Effect of changes in exchange rates	Effect of changes in fair value	Distribution of dividends to non-controlling interests	Entrance to Consolidation	Other changes	Balance at December 31, 2021
	NIS in thousands									
Short-term loans	136,512	-	-	117,131	-	-	-	561	-	254,204
Long-term loans(including maturities)	750,503	120,000	(215,828)	-	8	-	-	109	(240)	654,552
Put options of non-controlling interests	113,356	-	(5,376)	-	-	14,811	(13,424)	3,053	-	112,420
Finance lease obligation	127,809	-	(91,137)	-	(378)	-	-	-	108,501	144,795
Liabilities in respect for business combination	9,226	-	(5,937)	-	(89)	298	-	3,638	3,410	10,542
Leases										
Total liabilities arising financing activities	1,137,406	120,000	(318,278)	117,131	(459)	15,109	(13,424)	7,361	111,671	1,176,513

NOTE 21:- ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE INCOME ITEMS

a. Revenues:

	Year ended December 31,		
	2022	**2021**	**2020**
	NIS in thousands		
Information Technologies (IT) Software solutions and services, Consulting & Management in Israel.	2,435,375	2,361,005	2,308,913
Information Technologies (IT) Software solutions and services in USA.	434,273	355,923	358,310
Software product marketing and support	249,855	258,050	190,577
Cloud infrastructure and computer solutions	1,345,573	1,210,301	854,291
Training and implementation	207,613	174,869	141,950
	4,672,689	**4,360,148**	**3,854,041**

b. Cost of sales and services:

Purchases	1,105,177	1,098,180	864,197
Wages and related expenses	2,263,798	2,021,049	1,916,119
Subcontractors	451,850	395,920	368,213
Depreciation and amortization	102,431	74,364	60,251
Motor vehicles	49,435	46,356	52,088
Maintenance and other expenses	75,053	*78,880	*67,930
	4,047,744	3,714,749	3,328,798
Decrease (increase) in inventories	(47,062)	14,996	(37,748)
	4,000,682	**3,729,745**	**3,291,050**

c. Selling and marketing expenses:

Wages and related expenses	101,895	83,961	80,554
Amortization	20,617	21,452	18,062
Advertising and marketing	26,875	24,931	11,261
Subcontractors	7,042	11,111	*6,639
Other expenses	9,817	6,100	5,556
	166,246	**147,555**	**122,072**

* reclassified

d. General and administrative expenses:

Wages and related expenses	90,545	84,667	82,849
Depreciation and amortization	39,177	51,921	46,453
Doubtful accounts and bad debts	3,329	1,376	3,910
Capital loss (gain) from sale of property, plant and equipment	(197)	(78)	257
Other expenses	22,419	15,570	*18,317
	155,273	**153,456**	**151,786**

* reclassified

NOTE 21:- ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE INCOME ITEMS (Cont.)

e. Financial income and expenses:

	Year ended December 31,		
	2022	**2021**	**2020**
	NIS in thousands		
Financial expenses:			
Expenses in respect of business combination and Put options revaluation	12,987	14,127	5,204
Capitalization financial expenses IFRS16	6,566	5,086	4,178
Commissions, interest, differences and interest expenses on short and long-term loans	31,248	23,069	25,059
Foreign Exchange differences, net	-	3,276	7,761
	50,801	**45,558**	**42,202**
Financial income:			
Income from debtors in respect of an embedded derivative transaction and other	2,272	360	-
Foreign Exchange differences, net	2,748	-	-
	5,020	**360**	**-**

NOTE 22:- NET EARNINGS PER SHARE

Details of the net income and par value of shares used in the calculation of net earnings per Ordinary share of NIS 1 par value and the adjustments made for the calculation of basic and fully diluted net earnings per share:

	Year ended December 31,		
	2022	2021	2020
	NIS in thousands		
Basic net earnings per share:			
Net income attributable to equity holders of the Group	334,669	195,341	172,596
Weighted number of shares	62,954,418	62,497,759	62,125,977
Basic net earnings per share	**5.32**	**3.13**	**2.78**
Diluted net earnings per share:			
Net income attributable to equity holders of the Group	334,669	195,341	172,596
Weighted number of shares used to calculate basic net earnings per share	62,878,758	62,497,759	62,125,977
Effect of potential dilutive Ordinary shares	282,431	633,258	829,899
Adjusted weighted average number of shares	63,131,189	63,131,017	62,955,876
Diluted net earnings per share	**5.30**	**3.09**	**2.74**

NOTE 23:- INTERESTED AND RELATED PARTIES

a. **Balances:**

December 31, 2022:

	See Note	Related parties
		NIS in thousands
Trade receivables	6	6,821
Trade and other payables	12-13	5

December 31, 2021:

	See Note	Related parties
		NIS in thousands
Trade receivables	6	5,474
Trade and other payables	12-13	84

NOTE 23:- INTERESTED AND RELATED PARTIES (CONT.)

b. **Benefits to key management personnel:**

1. Compensation to key management personnel:

	Year ended December 31,					
	2022		2021		2020	
	No. of key managers	NIS in thousands	No. of key managers	NIS in thousands	No. of key managers	NIS in thousands
Post-employment benefits (1)	-	-	-	-	1	-
Share-based payment (2)	20	841	20	1,964	20	5,330

(1) See also note 16 d`.
(2) See also note 18.

2. Salaries and benefits to interested parties:

	Year ended December 31,					
	2022		2021		2020	
	No. of people	NIS in thousands	No. of people	NIS in thousands	No. of people	NIS in thousands
Salaries and related expenses paid to executives	1	17,036	1	10,959	2	14,323
Salaries and related expenses paid to interested parties	1	114	1	119	1	107
Public directors' fees	3	520	3	488	3	442

c. **Transactions with interested and related parties:**

Year ended December 31, 2022:

	Related parties and Parent Company	Interested Parties
	NIS in thousands	
Training services	345	898
Cloud computing services	8,856	76
Software testing and QA	3,532	23,252
Software products	1,661	3,825
Computer infrastructure and integration	6,689	-
Rent	28	-
Call center services	-	-
Purchase of software development services	(4,037)	3,511
Purchase of maintenance of software products services	(22)	-
Purchase of management services	(32)	

NOTE 23:- INTERESTED AND RELATED PARTIES (CONT.)

Year ended December 31, 2021:

	Related parties and Parent Company	Interested Parties
	NIS in thousands	
Training services	182	342
Cloud computing services	9,043	-
Software testing and QA	7,611	14,205
Software products	1,913	2,021
Computer infrastructure and integration	2,156	10
Rent	-	-
Call center services	-	-
Purchase of software development services	(2,053)	-
Purchase of maintenance of software products services	-	-

Year ended December 31, 2020:

	Related parties	Parent Company
	NIS in thousands	
Training services	106	-
Cloud computing services	7,944	-
Software testing and QA	8,524	-
Software products	1,175	-
Computer infrastructure and integration	1,873	-
Rent	-	-
Call center services	252	-
Purchase of software development services	(1,785)	-
Purchase of maintenance of software products services	-	-

NOTE 24:- OPERATING SEGMENTS

a. General:
The activity segments were determined based on the information reviewed by the Chief Operating Decision Maker (CODM) for resource allocation and performance evaluation purposes. Accordingly, for management purposes, the group is structured according to activity segments based on the products and services and the geographic location of the business units.

The Company operates through subsidiaries in the following segments:

- Information Technologies (IT) Software solutions and services, Consulting & Management in *Israel.*
- Information Technologies (IT) Software solutions and services in US.
- Training and implementation.
- Cloud infrastructure and computer solutions.
- Software product marketing and support.

NOTE 24:- OPERATING SEGMENTS (CONT.)

Information Technologies (IT) Software solutions and services, Consulting & Management in Israel.

Operations in this segment focus mainly on the development of large-scale technological systems and the provision of related services, including consulting and management, integration of computer and software, integration projects, outsourcing, software project management, software development, software testing, and QA. In addition, the activities in this area include management consulting services and multi-disciplinary operational and engineering consulting, including supervision of complex engineering projects, all according to the specific needs of the customer, and in accordance with the professional expertise required in each case.

Information Technologies (IT) Software solutions and services in US.

The activity in this area, which is carried out through two arms - Matrix US Holding and Xtivia, each of which owns a number of subsidiaries in the USA.
Activities in this segment include the provision of solutions and services to experts in the GRC field including Financial risk management, Fraud prevention, Anti-money laundering, Trade surveillance, Payment Services and Regulatory compliance security, as well as, specialized advisory services in the area of compliance with Financial regulation and operational services. In addition, the activity in this area includes the provision of specialized technological solutions and services in the areas of: Portals, BI, Data Base Administration (DBA), CRM (Customer Relation Management), and EIM (Enterprise Information Management). In addition, the activity in this segment includes:
dedicated solutions for the Gov. Con. (Government contracting market), IT Help Desk services specializing in Healthcare .and Software distribution services.
In addition, the activity in this field includes professional services and Off-Shore solutions including through employees in the company's activity centers in India and professional services and projects through personnel from across the Matrix group, as a gateway to a business model of exporting the company's services and products in the USA.

Training and implementation:

The Group's activities in this segment consist of operating a network of high-tech training and instruction centers that provide application courses, professional training courses and advanced professional studies in the high-tech industry, courses of soft skills and management training, and provision of training and implementation of computer systems directly in institutions and outsourcing and BPO of the management of training centers for customers as well as the provision of a variety of professional services by the outstanding graduates of the company's training courses, in an outsourcing format.

Cloud infrastructure and computer solutions:

The company's activities are primarily providing computer solutions to computer and communications infrastructures, marketing and sale of computers and peripheral equipment to business customers, providing related services, and cloud computing solutions (through the business specializing unit of the Company - Cloud Zone), and communication solutions, marketing and sales of hardware, software licenses and peripheral equipment to business customers together with the provision of related

NOTE 24:- OPERATING SEGMENTS (CONT.)

professional services, multimedia solutions and control centers, office automation and printing solutions, a variety of services in the field of Data and Big Data, through the specialized business unit of the company - DataZone as well as the representation of leading manufacturers of test and measurement equipment, communication and cyber and RF solutions, projects and integration in the field of automation, calibration services in advanced technologies and the provision of industrial video and image processing solutions adapted to the needs of the customer, through the business units specializing in this field - RDT Equipment and Systems and Asio Vision .

Software product marketing and support:

This segment is mainly software sales and distribution (mostly from abroad), and provides professional support for these products to customers, including marketing and maintenance of software products in various fields, providing professional support services for these products to customers as well as implementation, training, support and maintenance projects for the products and the integrated systems.

The accounting policies of the operating segments are the same as those presented in Note 2.

b. Geographic Information

Revenues reported in the financial statements derived from the Company's country of domicile (Israel) and foreign countries based on the location of the customers, are as follows:

	Year ended December 31,		
	2022	**2021**	**2020**
	NIS in thousands		
Israel	4,171,903	3,954,192	3,447,379
Abroad	500,786	405,956	406,662
	4,672,689	**4,360,148**	**3,854,041**

The carrying amounts of fixed assets (property, plant and equipment, and intangible assets) in the Company's country of domicile (Israel) and in foreign countries based on the location of the assets, are as follows:

	Year ended December 31,	
	2022	**2021**
	NIS in thousands	
Israel	990,633	918,754
Abroad	285,648	269,745
	1,276,281	**1,188,499**

NOTE 24:- OPERATING SEGMENTS (CONT.)

c. Reporting on operating segments:

	Year ended December 31, 2022						
	IT Software solutions and services, Consulting & Management in Israel.	Training and implementation	Software product marketing and support	Cloud infrastructure and computer solutions	IT Software solutions and services, in US.	Adjustments	Total
	NIS in thousands						
Revenues from external customers	2,435,375	207,613	249,855	1,345,573	434,273	-	4,672,689
Inter-segment revenues	73,102	4,345	21,174	81,843	628	(181,092)	-
Revenues	2,508,477	211,958	271,029	1,427,416	434,901	(181,092)	4,672,689
Depreciation and amortization	121,975	6,489	3,531	25,573	4,657	-	162,,225
Segment operating results	180,,359	24,883	24,200	76,607	60,228	(15,789)	350,448
Gain on realization of Subsidiary							150,059
Financial expenses							(50,801)
Financial income							5,020
Taxes on income							(100,285)
Net income							354,481

	Year ended December 31, 2021						
	IT Software solutions and services, Consulting & Management in Israel.	Training and implementation	Software product marketing and support	Cloud infrastructure and computer solutions	IT Software solutions and services, in US.	Adjustments	Total
	NIS in thousands						
Revenues from external customers	2,361,005	174,869	258,050	1,210,301	355,923	-	4,360,148
Inter-segment revenues	73,293	15,034	13,237	27,839	1,158	(130,561)	-
Revenues	2,434, 298	189,903	271,287	1,238,140	357,081	(130,561)	4,360,148
Depreciation and amortization	94,258	11,631	2,922	30,863	8,063	-	147,737
Segment operating results	186,,776	17,870	25,316	61,727	41,144	(3,441)	329,392
Financial expenses							(45,198)
Taxes on income							(65,446)
Net income							218,748

NOTE 24:- OPERATING SEGMENTS (CONT.)

	Year ended December 31, 2020						
	IT Software solutions and services, Consulting & Management in Israel.	Training and implementation	Software product marketing and support	Cloud infrastructure and computer solutions	IT Software solutions and services, in US.	Adjustments	Total
	NIS in thousands						
Revenues from external customers	2,308,913	141,950	190,577	854,291	358,310	-	3,854,041
Inter-segment revenues	76,877	12,706	13,125	37,660	33	(140,401)	-
Revenues	2,385,790	154,656	203,702	891,951	358,343	(140,401)	3,854,041
Depreciation and amortization	89,894	12,462	1,822	13,086	7,502	-	124,766
Segment operating results	155,150	14,353	26,560	44,054	61,464	(12,448)	289,133
Financial expenses							(42,202)
Taxes on income							(56,081)
Net income							190,850

NOTE 25:- POST-BALANCE SHEET EVENTS

On January 1, 2023, the company purchased 70% of the share capital of Zebra Technologies Ltd. for NIS 53 million (including equity). The company is engaged in the distribution and marketing of solutions in the fields of data communication, cyber protection, hardware, software and services. As part of the transaction, the company entered into a mutual option agreement with the seller for the sale and purchase of the remaining shares.

CHAPTER D

Additional Details On The Corporation For 2022

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Additional Details On The Corporation For 2022

Name of the Company:	Matrix IT Ltd. ("The Company")
Company no.:	520039413
Address:	Abba Eban Avenue, Herzlia (Regulation 25a)
E-mail address: **Website address:**	nevobr@matrix.co.il (Regulation 25a) www.matrix.co.il
Telephone:	09-9598819 (Regulation 25a)
Fax:	09-9598748 (Regulation 25a)
Date of statement of financial position:	31.12.2022 (Regulation 9)
Date of periodic report:	12.03.2023 (Regulation 7)

Regulation 8b (i) – Very material valuation made by the Company

The following are details regarding a very material valuation[1] pursuant to Regulation 8b of the Securities Regulations (Periodic and Immediate Reports), 1970 ("**the Regulations**").

Identification of subject of assessment	Information technology solutions and services sector, consulting and management in Israel (cash-generating unit)
Purpose of assessment	Examination of impairment of goodwill attributable to the sector
Date of assessment	December 31, 2022
Book value of cash-generating unit immediately prior to the assessment	NIS 506 thousand (Net assets of the cash-generating unit)
Value of the subject of the assessment determined according to the valuation	NIS 2,578 thousand
Identification of the assessor, its characterization, including education, experience, in making valuations for accounting purposes in reporting corporations and with scopes similar to those of the reported assessment or those in excess of those scopes	Assayag Consulting Ltd. - The partners of the firm are academic experts with extensive practical experience in valuations, including valuations for financial reporting purposes. The partner responsible for the valuation is Aviad Cohen, CPA.
Dependence of the assessor on the entity ordering the assessment, including reference to indemnity agreements with the assessor	The assessor is independent. The assessor's responsibility for performing the valuation was limited to up to 3 times the amount of his fee.
Valuation model employed by the assessor	Discounted cash-flow method (DCF)
Assumptions used the assessor in the assessment in accordance with the valuation model	(1) Weighted cost of capital (WACC) – 9.2% (Nominal rate of capitalization); (2) Permanent rate of growth – 3.00%.

[1] This is a valuation for the purpose of examining the impairment of a cash-generating unit and under any reasonably possible change in the key assumptions used to determine the recoverable amount of the unit, no very substantial impairment would have been recognized, therefore, only disclosure was made and no valuation was attached

Regulation 8b (i) – Material valuation made by the Company

The following are details regarding a material valuation pursuant to Regulation 8b of the Securities Regulations (Periodic and Immediate Reports), 1970 ("**the Regulations**"):

Identification of subject of assessment	Information technology solutions and services sector, consulting and management in the United States (cash-generating unit)
Purpose of assessment	Examination of impairment of goodwill attributable to the sector
Date of assessment	December 31, 2022
Book value of cash-generating unit immediately prior to the assessment	NIS 305 thousand (net assets of the cash-generating unit)
Value of the subject of the assessment determined according to the valuation	NIS 812 thousand
Identification of the assessor, its characterization, including education, experience, in making valuations for accounting purposes in reporting corporations and with scopes similar to those of the reported assessment or those in excess of those scopes	Assayag Consulting Ltd. - The partners of the firm are academic experts with extensive practical experience in valuations, including valuations for financial reporting purposes. The partner responsible for the valuation is Aviad Cohen, CPA
Dependence of the assessor on the entity ordering the assessment, including reference to indemnity agreements with the assessor	The assessor is independent. The assessor's responsibility for performing the valuation was limited to up to 3 times the amount of his fee.
Valuation model employed by the assessor	Discounted cash-flow method (DCF)
Assumptions used the assessor in the assessment in accordance with the valuation model	1) Weighted cost of capital (WACC) – 10.1% (Nominal rate of capitalization); (2) Permanent rate of growth – 3.00%.

Regulation 10a – Condensed statements of comprehensive income for each of the quarters ended December 31, 2022
See section 1.2.2 to the Report of the Board of Directors.

Regulation 10c – Use of proceeds of securities with reference to the destination of the proceeds set forth in the prospectus
The proceeds received by the Company in respect of the issue of Series B bonds according to a shelf offer dated September 14, 2022 (ref. no. 2022-01-117502) are used by the Company for various purposes as part of the Company's business activity, pursuant to the decisions of the Board of Directors, as they may be from time to time, including for the purpose of financing the Company's activity, including recycling an existing debt.

Regulation 11 – List of investments in subsidiaries and significant affiliate companies at the date of the statement of financial position

Company name[2]	Class of share	Number of shares	Cost of investment	Percentage of the capital of the voting rights and of the power to appoint directors	Value in the separate financial statements of the Company (NIS thousands)
Matrix IT Systems Ltd.	Ordinary shares NIS 0.15 par value	16,000,000	35,810	100%	1,549,225
John Bryce Training Ltd.	Ordinary shares NIS 1 par value Deferred shares NIS 1 par value	112,700 300	8,971	100%	144,358
Matrix IT Integration and Infrastructures Ltd.	Ordinary shares NIS 1 par value Deferred shares NIS 1 par value	1,500 1,500	57,851	100%	223,743
Matrix Defense Ltd.	Ordinary shares NIS 1 par value	39,100	-	100%	38,800

Regulation 12 – Changes in investments in subsidiaries and affiliate companies during the period of the Report

See Note 3 to the consolidated financial statements of the Company as at December 31, 2022 which are presented in Part C of the Report ("the financial statements").

[2] The companies are not listed on the Stock Exchange and their shares are not traded on the Stock Exchange.

Regulation 13 – Income of significant subsidiaries and affiliate companies and the corporation's income from them to the date of the statement of the financial position (NIS thousands)

Company name	Income (loss) before tax	Income (loss) after tax	Dividend	Management fees	Interest
Matrix IT Systems Ltd.	369,604	273,210	-	18,700	(23,631)
John Bryce Training Ltd.	16,764	13,064	-	-	(626)
Matrix IT Integration and Infrastructures Ltd.	45,885	33,688	-	14,935	6,691
Matrix Defense Ltd.	11,482	9,216	-	14,019	(806)

* - Other comprehensive income (loss) for the period is an immaterial insignificant amount.

** - Income not attributable to the Company's owners is an immaterial amount.

Regulation 20 – Trading on the Stock Exchange – Securities listed for trading

In 2022, the Company's securities set forth below were listed for trading on the Tel Aviv Stock Exchange Ltd.: NIS 295,249,000 of Series B bonds which were issued as part of a public offering on September 14, 2022.

NIS 180,366,000 of Series B bonds, which were issued by way of expanding a traded series, as part of a (private) issue from December 4, 2022.

For details regarding share allocations following the exercise of options and blocked share units, see Note 18 to the financial statements.

In 2022, there were no fixed trading interruptions in the trading of the Company's ordinary shares on the Stock Exchange (not as a result of the publication of a material report by the Company).

Regulation 21 –Remuneration for interested parties and senior officers:

1. The following is a breakdown of the remuneration as recognized in the financial statements for 2022 for each of the five highest-paid senior officers in the Company or in the corporations under its control, and which were granted to them in connection with their tenure in the Company or in the corporations under its control (The data below are in terms of cost to the employer and on an annual basis):

Name	Position (*)	Rate of holding the Company's capital – fully diluted (in %)	Salary (in NIS)	Bonus (in NIS) **	Share-based payment (in NIS)	Management fees (in NIS)	Total (in NIS)
Mr. Moti Gutman (1)	CEO	0.67		12,960,000	844,858(2)	3,232,000	17,036,858
Mr. Moshe Attias (2)	Former Chief Financial Officer		1,684,153	3,287,326(4)	131,360(5)		5,102,839
Mr. Ziv Mandl (6)	Senior Vice President and Cluster Manager (see Regulation 26a)		1,423,911	2,004,860(7)	46,748(8)		3,475,519
Mr. Avi Goldstein (9)	Manager, Cloud Infrastructures and Computing		1,076,978	1,931,605(10)	21,932(11)		3,030,515
Mr. Yaron Raz (12)	Senior Vice President and Cluster Manager (see Regulation 26a)		1,178,918	1,249,470(13)	46,748(14)		2,475,136

(*) All are full-time, including Mr. Gutman who provides the Company with management services.

(**) In accordance with the provisions of the Company's remuneration policy, eligibility for the monetary bonus for all officers is contingent on the goal of achieving an operating profit at a minimum rate of 75% of 105% of the Company's operating profit in the year preceding the relevant year of the relevant bonus ("normative profit"). In 2022, the Company met the aforementioned normative profit target. In addition, the eligibility for bonuses will be examined on a three-year basis in such a way that 20% is contingent on meeting the average annual operating bonus grant ceiling during the three-year period in the normative profit. The ceiling of the annual bonus is equal to 250% of the fixed component of the officer, and as regards the CEO, an amount equal to 400% of the fixed component.

Moti Gutman

1) CEO of the Company since February 1, 2001. During 2022, Mr. Gutman provided the Company with management services in accordance with the management services agreement that was approved on December 31, 2017, between the Company and a company controlled by Mr. Gutman ("the management agreement"), in effect from January 1, 2018 until December 31, 2022. For details regarding the full set of the terms of engagement in accordance with the management agreement, see the Company's Immediate Reports from November 6, 2017 (ref. 2017-01-097009), from December 14, 2017 (ref. 2017-01-112249) and from January 1, 2018 (ref. 2018-01-000058). On December 28, 2022, the Company approved a commitment with Mr. Gutman in an employment agreement, in effect from January 1, 2023 to December 31, 2027. For details regarding the full set of the terms engagement in accordance with the management agreement, see Immediate Reports of the Company from November 10, 2022 (ref. 2022-01-135274) and from December 29, 2022 (ref. 2022-01-157564).

2) Amount of the expense as recorded in the financial statements for 2022 (non-linear) according to the generally accepted accounting principles (the amount of the expense according to a linear layout is about NIS 2,200,000).
On January 16, 2018, the Company allocated to Mr. Gutman, free of charge, 256,890 restricted share units (RSU) that can be redeemed for 256,890 ordinary shares of the Company, without an exercise increment (see also Immediate Reports as set forth in sub-section 1 regarding the CEO agreement). For more details about the restricted share units, see the Company's Immediate Report of January 16, 2018 (ref. 2018-01-006094). As of the date of the report, Mr. Gutman holds 51,378 restricted share units. For details regarding the sale of shares, see Immediate Reports from March 13, 2022 (ref. 2022-01-029092 and ref. 2022-01-029212). On February 1, 2023, the Company allocated to Mr. Gutman without consideration, 375,000 restricted shares of the Company. The restricted shares were allocated as part of a substantial private offer as part of the employment agreement with Mr. Gutman as set forth in the Immediate Reports of November 10, 2022 (ref. 2022-01-135280, of December 15, 2022 (ref. 2022-01-151651) from December 29, 2022 (ref. 2022-01-157564] and from February 2, 2023 (ref. 2023-01-013749).

Moshe Attias

3) Mr. Attias served as the Company's Chief Financial Officer until June 1, 2022. For more details, see the Company's Immediate Report from June 1, 2022 (ref. 2022-01-068827).

4) The amount of the grant for the year 2220 as recognized in the financial statements for 2022. Mr. Attias was entitled for each year to a grant at the rate of 1.083% of the Company's net profit attributable to owners of equity rights (excluding the Company's annual capital gain), plus 1.666% of the capital gain (net of tax) of the Company (which constitutes one third of the grant to which the CEO is entitled), according to the Company's financial statements (which was about NIS 121 million in 2022).

5) Share-based payment value as recognized in the financial statements for 2022 (not linear) according to the generally accepted accounting rules (the amount of the expense according to a linear distribution is about NIS 525,938).

Ziv Mandl

7) Mr. Mandl has served as the Director of the Training Division since 2002 and is currently Senior Vice-President and Cluster Manager as detailed in Regulation 26A below. Mr. Mandl's employment is for an indefinite period and can be terminated with six months' advance notice by either party.

8) The amount of the bonus for 2022 as recognized in the financial statements for 2022. Mr. Mendel is entitled for each year to a bonus based on a formula consisting of meeting the operating profit goals of the business units under his management and a broad bonus derived from the Company's annual net income attributable to the Company's shareholders, with certain offsets, and also received an additional discretionary component, all in accordance with the provisions of the Company's remuneration policy.

9) A share-based payment value as recognized in the financial statements for 2022. (non-linear) according to generally accepted accounting principles (the amount of the expense according to a linear distribution is NIS 187,000).

Avi Goldstein

10) Mr. Goldstein has served as the of the Company's Cloud and computing infrastructure Division Manager since 2002. Mr. Goldstein's employment agreement is for an indefinite period and can be terminated with six months' advance notice by either party.

11) The amount of the bonus for the year 2022 as recognized in the financial statements for 2022. Mr. Goldstein is entitled for each year to a bonus based on a formula calculated as a percentage of the operating profit of the Division under his management.

12) Share-based payment value as recognized in the financial statements for 2022. (non-linear) according to generally accepted accounting principles (the amount of the expense according to a linear distribution is NIS 93,500).

Yaron Raz

13) Mr. Raz has served as a manager in the Company since 2011 and is currently a senior Vice President and Cluster Manager as set forth in Regulation 26A below. Mr. Raz's employment is for an indefinite period and can be terminated with six months' advance notice by either party.

14) The amount of the bonus for 2022 as recognized in the financial statements for 2022. Mr. Raz is entitled for each year to a bonus based on a formula derived from meeting the operating profit goals of the business units (divisions and subsidiaries) under his management, including for the overperformance of the aforementioned business units, and he also received an additional discretionary component, all in accordance with the provisions of the remuneration policy.

15) Share-based payment value as recognized in the financial statements for 2022. (non-linear) according to generally accepted accounting principles (the amount of the expense according to a linear distribution is NIS 187,000).

2. The breakdown of the remuneration paid in 2022 to each of the interested parties in the Company, who is not listed in section 1 above, if the remuneration were made to him by the Company or by a corporation under its control, in connection with services he provided as an officer in the Company or in a corporation under its control, whether there are employee-employer relationships or not, and even if the interested party does not hold a senior position.

   For a breakdown of the remuneration for all directors in the Company who are entitled to directors' remuneration (the external directors and the directors who are not employed by the Company are entitled to remuneration) in accordance with the Company Regulations (Rules regarding Remuneration and Expenses for External Directors), 2000), see note 23 to the financial statements.

3. After December 31, 2022 and through the date of submitting the Report, no remuneration was paid to any senior officers, as noted in section 1 above, in connection with their tenure and employment in 2022, and which were not recognized in the financial statements for 2022.

Regulation 21 A - Control in the corporation

At the date of the Report, the controlling shareholder of the corporation is Formula Systems (1985) Ltd. ("Formula") (which holds approximately 48.21% of the capital and voting rights of the issued share capital in the Company), a public company whose shares are listed for trading on the Tel Aviv Stock Exchange and NASDAQ .
According to the reports of Formula, Asseco Poland S.A. , ("Asseco") a Polish public company whose shares are listed for trading on the stock exchange in Warsaw, Poland, owns 25.56% of Formula's issued share capital. On December 5, 2022, Asseco and Mr. Guy Bernstein, CEO of Formula, brought the voting agreement between them to the end with a joint decision.
https://www.sec.gov/Archives/edgar/data/1045986/000121390022078181/ea169794-13da4bern_formula.htm
No other entity holds a higher proportion of its issued share capital.

To the best of the Company's knowledge, the interested parties in Formula as detailed on the Stock Exchange website (as of March 8, 2023) are as follows:

Interested party	Voting percentage
Asseco (see above)	25.56%
Guy Bernstein	11.74%
Harel – Institutional	7.57%
Menora Provident Fund	7.05%
Yelin Lapidot Investment House	5.6%
Meitav Dash Provident Fund	5.31%

According to information received from Asseco and public information[3], as of the date of the report, Asseco does not have a controlling shareholder; and the interested parties in Asseco are[4]:

Interested party	Voting percentage
Cyfrowy Polsat [5] (holding shares directly and indirectly through its subsidiary Cyfrowy Polsat S.A.):	22.95%
Alianz Pension Fund	11.30%
Adam Góral	9.74%
Generali Pension Fund	5.64%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	5.03%

[3] https://inwestor.asseco.com/en/about-asseco/shareholders/
[4] It should be noted that the Company does not have officers who serve as officers in Asseco.
[5] According to information provided by ASSECO and public reports (https://grupapolsat.pl/en/corporate-governance/shareholder-structure), Cyfrowy Polsat S.A. is a subsidiary of Reddev Investments Limited, which is a subsidiary of a Polish company called TiVi Fundation which is controlled By Zygmunt Solorz

Regulation 22 - Transactions with a controlling shareholder or in which the controlling shareholder owner has a personal interest

1. For details, to the best of the Company's knowledge, regarding any transaction with a controlling shareholder or in the approval of which the controlling shareholder of the Company has a personal interest, which the Company entered into in the reporting year or through the date of submitting the Report or which is still in effect at the date of the Report, see note 23 to the Report. All the transactions detailed in the aforementioned note are "negligible transactions" or transactions that are not "exceptional transactions", as detailed below.
2. Negligible transactions
   According to the Company's procedures, a negligible transaction is a transaction in the normal course of the company's business and under market conditions (which are determined in comparison to similar transactions of the Company with unrelated parties), and which, in the absence of any exceptional quality reference, the annual monetary total does not exceed NIS 1 million (including after aggregation of a number of transactions with the same party, between which there is a dependency, in such a way that they essentially constitute one transaction). During the period of the Report, negligible transactions of these types were associated and/or were valid: sale and purchase of software and hardware products and provision and receipt of various services, mainly in the field of Information technologies.
3. Non-exceptional transactions
   A transaction that is not an "exceptional transaction" with a controlling shareholder or in which a controlling shareholder has a personal interest is presented to the Audit Committee for classification, unless it was approved in accordance with the procedure for "covenants and procedure for approving non-exceptional transactions with interested parties". According to this procedure, it is possible to approve a contract for the purchase or sale of a product or service, with an interested party in the Company or with another party and in which the interested party in the company has a personal interest, which was made in the normal course of the Company's business (including companies controlled by the Company) the amount of which (including after the accumulation of transactions with the same entity, which are close in terms of time and/or location) does not exceed the lower of these two: (a) 2% of the Company's shareholders' equity according to its latest financial reports (as of the date of the Report - NIS 19 million); or (b) NIS 20 million for the year. Pursuant to the procedure, such transactions are approved on the basis of their comparison with the terms of similar transactions of the Company with unrelated parties.
4. For the purposes of control over the way in which the procedure is implemented, once every six months, a summary report is submitted for review by the Audit Committee regarding all the transactions that have been approved according to the provisions of the procedure. Also, once a year, the Audit Committee holds a discussion regarding the need to update the criteria for approving non-exceptional transactions as mentioned. On March 7, 2023, the Audit Committee held a discussion on the subject, pursuant to which, it examined the summary report and found no deviation from the provisions of the procedure, and also approved the aforementioned procedure for covenants.

Regulation 24 (a) - Shares and other securities that interested parties and senior officers hold in the corporation, or in an investee company whose activity is material to the corporation, as close as possible to the date of the Report

For details of the holdings of interested parties and officers, see an Immediate Report published by the Company on February 2, 2023 (ref. 2023-01-013755).

Regulation 24 (d)

The Company owns 653,860 par value dormant shares of the Company.

Regulation 24A - Authorized capital, issued capital and convertible securities as of the date of the Report

For details of the authorized capital, issued capital and convertible securities, see note 17 to the financial statements.

Regulation 24 b - Register of shareholders

For details of the Company's shareholder register, see an Immediate Report published by the Company on February 2, 2023 (ref. 2023-01-013773).

Regulation 26 – Directors of the corporation

The following are details of the directors of the corporation as of the date of the report:

	Guy Bernstein (Chairman)	**Itiel Efrat**	**Yafit Keret**	**Pinhas Greenfeld**	**Eliezer Oren**
ID number	023578354	059028688	029497260	10758209	050700855
Date of birth	March 9, 1968	September 23, 1964	July 14, 1972	March 23, 1947	June 21, 1951
Address for furnishing court documents	5, Hashalva, Savyon	14, Hadekalim Ave., Kohav Yair	11 Hanesher, Raanana	27, Menahem Begin, Givat Shmuel	26, Zalman Shneour, Herzlia
Nationality	Israeli	Israeli	Israeli	Israeli	Israeli
Membership of committees of the Board of Directors	No	Audit Committee, Remuneration Committee, Committee for Examining the Financial Statements	Audit Committee, Committee for Examining the Financial Statements	Audit Committee, Remuneration Committee, Committee for Examining the Financial Statements	No
External director or independent director	No	External director	External director	Independent director	No
Has accounting and financial expertise or professional qualification	Has accounting and financial expertise	Has accounting and financial expertise	Has accounting and financial expertise	Professionally qualified	Has accounting and financial expertise
An employee of the corporation, a subsidiary, a related company or an interested party	CEO of Formula Systems (1985) Ltd., controlling shareholder of the Company, CEO of Magic Software Industries Ltd. and director of Magic Software Industries Ltd. and its subsidiaries, Chairman of Sapiens International Corporation, Chairman of Matrix, Chairman of Michpal Micro Computers (1983) Ltd., Director of Effective Solutions Ltd., Unique Software Industries Ltd., Liram Financial Software Ltd., TSG IT Advanced Systems in Sync Staffing Ltd., Chairman of the Board of Directors of Zap Group, Director of Shamrad Electronics (1977) Ltd.	No	No	No	Director and Vice Chairman of the Board of Directors of the Company, director of the Company's subsidiaries
Date of commencement of tenure as a director of the Company	January 11, 2007	Dec 13, 2017	August 27, 2018	December 21, 2021	February 23, 2004
Education	CPA, Graduate of Economics and Accounting, Tel Aviv University	CPA, Graduate of Accounting and Finance, College of Management, Tel Aviv	CPA, Graduate of Business Administration and Accounting, College of Management; Master's Degree In Business Administration, College of Management, Academic Studies	Graduate of Political Science - Haifa University. Certified in Political Science - Haifa University	Graduate of Mathematics and Computer Science – Tel Aviv University

	Guy Bernstein (Chairman)	Itiel Efrat	Yafit Keret	Pinhas Greenfeld	Eliezer Oren
Employment in the past five years	Chairman of the Board of Directors of the Company, CEO of Formula Systems (1985) Ltd., CEO of Magic Software Industries Ltd., director of Magic Software Industries and its subsidiaries, Chairman of Sapiens International Corporation, director of InSync Staffing Ltd., director of Michpal Micro Computers (1983) Ltd. and its subsidiaries, director of TSG IT Advanced Systems Ltd., director of Ofek Aerial Photography (1987) Ltd.	Owner and CEO of ERB Financial Group Ltd.	Owner and CEO of Proximo Ltd.	Independent director in the Company until 2018	Company President (until January 31, 2022) and Vice Chairman of the Board of Directors of the Company
Details of corporations in which he/she serves as a director	Magic Software Industries Ltd. and its subsidiaries. Chairman of Sapiens International Corporation. Chairman and director of Michpal Micro Computers (1983) Ltd. and its subsidiaries. Director of TSG IT Advanced Systems Ltd. Director at InSync Staffing. Director of Zap Group Ltd. Director of Ofek Aerial Photography (1987) Ltd.	ERB Financial Group, ERB Finance, Efrat Regev Financial Services	Proximo Ltd., Migdalor - Investment Fund 2 Ltd., Kendy Solutions Ltd.	Does not serve as a director in other corporations	Director of the company and the company's subsidiaries and sub-subsidiaries
Family member of an interested party	No	No	No	No	No
A director whom the Company considers to have accounting and financial expertise in order to meet the minimum number	Yes	Yes	Yes	Yes	Yes

Regulation 26 – Senior officers of the Company

Name	ID number	Date of birth	Position	Date of commencement of tenure	Interested party or family member of another senior officer or interested party	Education	Employment in the past five years
Moti Gutman	057260341	29.10.1961	CEO	February 2001	No	Qualified, Business Administration - Hebrew University	CEO of the Company
Nevo Brenner	033741182	01.05.1977	Chief Financial Officer, director in subsidiaries and sub-subsidiaries of the Company	June 2022	No	Graduate, Economics and Accounting, Hebrew University, Jerusalem - Qualified, Business Administration - Hebrew University	Chief Financial Officer of the Company, Chief Financial Officer – Energix Renewable Energies Ltd. Chief Accountant – Israel Aircraft Industries Ltd.
Ranit Zexer	057514838	05.12.1962	Chief Technological Officer (CTO)	January 2002	No	Bachelor's Degree in Mathematics and Computer Science, Bar Ilan University	VP, Technologies of the Company (CTO)
Asaf Givati	028054914	22.10.1970	EVP Strategic Projects	November 2022	No	Bachelor's Degree in Economics, Master's Degree in Business Administration, Hebrew University	Cluster Manager of subsidiaries
Yifat Givol	029714474	01.08.1973	Manager, Legal Counsel and Company Secretary	Manager. Legal Department from May 2012, Company Secretary from January 2008	No	Bachelor's Degree In Law and Business Administration – Interdisciplinary Center, Herzlia	Manager, Legal Department and Company Secretary
Ziv Mandl	059629311	05.05.1965	Senior VP and Manager of the Cluster including the Training, Business Systems Offshore and R&D Divisions and Outsourcing and Consultants Division of the Company. Also serves as director in subsidiaries of the Company	November 2002	No	Bachelor's Degree in Political Science and Computer Science in Bar Ilan University	Manager of divisions and subsidiaries in the Company

Name	ID number	Date of birth	Position	Date of commencement of tenure	Interested party or family member of another senior officer or interested party	Education	Employment in the past five years
Avishag Elbaz Harush	025126715	21.04.1973	Manager, Human Resources	November 2019	No	Bachelor's Degree in Behavioral Science – University of Ben Gurion, Qualified Communications, Academic College, Netanya – Qualified = Business Administration – Hebrew University	Vice President, Human Resources of the Company (VP HR Matrix & Subsidiaries) Manager, Human Resources
Shira Raz-Meizner	025525692	03.07.1973	Vice President, Marketing	January 2021	No	Bachelor's Degree, Sociology and Anthropology, Tel Aviv University	Manager, Marketing
Avi Goldstein	024123358	06.05.1969	Manager, Cloud Infrastructures and Computing	2002	No	High-school education	Manager, Infrastructure and Integration Division Joint Manager - Infrastructure and Integration Division
Yaron Raz	033365156	19.02.1977	Senior Vice President and Manager of Cluster including Software Products Division, Matrix Defense (Security Division), DATA & AI and serves as director in XTIVIA and in other subsidiaries of the Company	April 2011	No	Bachelor's Degree in Economics and Business Administration – Bar Ilan University Master's Degree n Law for Economists – Bar Ilan University	Manager of divisions and subsidiaries in the Company
Nitsan Alon	059295253	26.02.1965	Vice President, Strategy and Chairman of Matrix Defense	February 2020	No	Graduate In Physics and qualified in Material Engineering - Technion	Head of Operations Branch in IDF General Staff, CEO, Canndoc Ltd., Vice President Strategy and Chairman, Matrix Defense

Name	ID number	Date of birth	Position	Date of commencement of tenure	Interested party or family member of another senior officer or interested party	Education	Employment in the past five years
Sigalit Katan	058888611	10.10.1964	Company Comptroller	January 2002	No	Bachelor's Degree in Business Administration	Chief Comptroller in Matrix
Liat Tennenholtz	039821384	22.04.1984	VP Mergers and Acquisitions Director in subsidiaries and sub-subsidiaries of the Company	January 2021	No	Bachelor's Degree in Law, Tel Aviv University Bachelor's Degree in Auditing – Tel Aviv University	Director in Zim Manager, Business Development , External Director in Navitas Buckskin Financing
Amir Shary	029672227	06.10.1972	Manager, Fintech and Digital Division	January 2021	No	Bachelor's Degree (BSc) in Machine Engineering – Technion Master's Degree in Business Administration (MBA) Tel Aviv University	Deputy Manager, Fintech and Digital Division
Israel Gvirtz	33762139	19.02.1977	Internal Auditor	January 2023	No	Bachelor's Degree in Economics and Accounting C.P.A. Qualified Internal Auditor	Partner in Fahn, Kanne Control Management Ltd.

Officers whose term of office terminated during the period of the report:

Name	ID number	Date of commencement of tenure	Date of termination of tenure
Moshe Attias	057862377	January 2002	June 2022
Eliezer Oren	050700855	February 2021	January 2022 [continues to serve as director]
Alfonso (Fooni) Arbib	054208558	September 2008	January 2022
Dalia Robinson	054938584	August 2007	December 2022
Dana Gutman Ehrlich	037575735	March 2020	December 2022

Regulation 27 – Auditor of the corporation

Kost Forer Gabbay & Kasierer, 3 Aminadav St., Tel Aviv, 67067

Regulation 28 – Changes in the articles of the corporation

None

Regulation 29 - Directors' recommendations and decisions and special general meeting decisions

1. Dividend - For details about the resolutions of the Board of Directors of the Company regarding cash dividend distributions, see note 17 to the financial statements.
2. Resolution of Special General Meeting
   2.1 On January 27, 2022, the General Meeting of the Company approved the acceleration of the vesting date of the third tranche of the options granted to Mr. Eliezer Oren, of 25% of the number of options. The date of termination of Mr. Oren's employment was on January 31, 2022. For further details, see Immediate Reports from December 22, 2021 (ref. 2021-01-112507) and January 27, 2022 (ref. 2022-01-012256)
   2.2 On April 3, 2022, the Remuneration Committee and the Board of Directors Company approved the updated remuneration policy and the adjustment of the CEO's bonus ceiling after the approval of the General Meeting was not received. For further details, see the Immediate Report published by the Company on April 3, 2022 (ref. 2022-01-042259).
   2.3 On December 21, 2022, the Remuneration Committee, and subsequently, the Board of Directors of the Company, on December 28, 2022, approved the Company's engagement in the employment agreement with the CEO and updated the terms of his employment for the period from January 1, 2023 to December 31, 2027, after the approval of the General Meeting was not received. For further details, see Immediate Report of the Company dated December 29, 2022 (ref. 2022-01-157564).

Regulation 29 A – Resolutions of the Company

Insurance or commitment to indemnify an officer in effect on the date of the Report -
On June 16, 2022, the Board of Directors of the Company approved, after receiving the approval of the Company's Remuneration Committee from that date, the renewal of the contract for liability insurance of directors and officers in the Company (including the CEO) and in the Company's subsidiaries and investees as they may be from time to time, including a Side A DIC policy, commencing June 17, 2022. The insurance coverage is within the limits of liability of US$ 30 million per case and period, and the coverage under the Side A DIC D&O policies is within the limits of liability of US$ 10 million. Under the policy, all officers of the Company and its subsidiaries and holdings, including directors, are insured under identical conditions, past or present None of the Company's officers has control over it.
The Company's officers were also given letters of commitment for indemnification.

Date: 12.03.2023

Matrix I.T. Ltd.

Guy Bernstein Chairman of the Board of Directors	Moti Gutman CEO

Corporate governance questionnaire[6]

	Independence of the Board of Directors	Correct	Incorrect
1.	Throughout the reporting year, two or more External Directors served with the corporation. This question can be answered "Correct" if the time period during which two External Directors did not serve does not exceed 90 days, as stated in Section 363A(b)(10) of the Companies Law, but whatever the answer (correct/incorrect), the time period (in days) is to be stated during which two or more External Directors did not serve with the corporation in the reporting year (including also the period of service approved retroactively, distinguishing between the various External Directors): Director A: Itiel Efrat Director B: Yafit Keret Number of External Directors serving with the corporation as of the date of publishing this questionnaire: 2	✓	
2.	Ratio[7] of Independent Directors[8] serving with the corporation as of the date of publishing this questionnaire: 3 (which are two External Directors mentioned as in section 1 and Pinchas Greenfeld, a Independent Director). The ratio of the Independent Directors stipulated in the Articles of Association[9] of the corporation[10]: if there is no controlling shareholder in the Company - a majority; if there is a controlling shareholder in the Company - one third.	✓	______

[6] Published pursuant to legislative proposals for improving the reports dated March 16, 2014
[7] In this questionnaire, "ratio" is the particular number out of the total, for example 3/8.
[8] Including "External Directors" as defined in the Companies Law.
[9] In this questionnaire – "Articles of Association" includes in accordance with a specific statutory provision applicable to the corporation (in the case of a banking corporation for example – the directives of the Supervisor of Banks).
[10] A debenture company is not required to answer this section.

	Independence of the Board of Directors	Correct	Incorrect
3.	In the Reporting Year, an examination was conducted was performed on the External Directors (and the Independent Directors) and it was found that, in the Reporting Year, they were in compliance with the provisions of Section 240(b) and (f) of the Companies Law with regard to the absence of an interest of External (and Independent) Directors serving in the corporation, and also that the conditions necessary for them to serve as an External (or Independent) Director had been fulfilled.	✓	
4.	All of the Directors who served with the corporation during the Reporting Year are not subject to the CEO, directly or indirectly (except for a Director who is a representative of employees, if the corporation has such employee representation). If you answer "Incorrect" (i.e., the Director is subject[11] to the CEO, as stated) – state the ratio of Directors who do not meet the aforesaid restriction: 1 Mr. Eliezer Oren, Deputy Chairman of the Board of Directors, who was employed in the Company until January 31, 2022.	✓	
5.	All Directors who disclosed having a personal interest in the approval of a transaction on the agenda of the meeting, did not attend the discussion and did not participate in the aforesaid vote (other than a discussion and/or a vote in circumstances which comply with Section 278(b) of the Companies Law): If you answer "Incorrect" – Was it so that the Director could present a particular topic in accordance with the provisions at the end of Section 278(a): ☐ Yes ☐ No (Place an X in the appropriate box). Note the ratio of meetings at which the aforesaid Directors attended the discussion and/or participated in the vote, other than in the circumstances referred to in subsection a: _________.	✓	

[11] For the purposes of this question - serving as a Director of an investee that is controlled by the corporation shall not be deemed as being "subject". On the other hand, serving as a Director of the corporation who serves as an Officer (other than Director) and/or is employed in an investee corporation that is controlled by the corporation shall be deemed as being "subject" for the purposes of this question.

	Independence of the Board of Directors	Correct	Incorrect
6.	The controlling shareholder (including his relative and/or anyone acting on his behalf), who is not a Director or another Senior Officer in the corporation, was not present at the meetings of the Board of Directors held in the Reporting Year. If you answer "Incorrect" (i.e., a controlling shareholder and/or his relative and/or anyone acting on his behalf, who is not a member of the Board of Directors and/or a Senior Officer of the corporation was present at the aforesaid meetings of the Board of Directors) – the following details regarding the presence of a person at the aforesaid meetings of the Board of Directors are to be provided: Identity: Asaf Bernstein(*) Position in the corporation (if any): None Details of the Interest for the controlling shareholder (if the person present is not the controlling shareholder himself): CFO of Formula Systems (1985) Ltd., the controlling shareholder in the Company/ Was this so that the person could present a particular topic: ☐ Yes ☒ No (Place an X in the appropriate box) Ratio of attendances[12] at meetings of the Board of Directors held in the Reporting Year in order for presentation of a particular topic by him: 50%, other attendances: ____. Identity: Maya Solomon (*) Position in the corporation (if any): None Details of the relationship to the controlling shareholder (if the person present is not the controlling owner him/herself): COO of Formula Systems (1985) Ltd., the controlling shareholder of the Company. Was this for presentation of a particular topic by him: Yes ☐No ☒ (Place an X in the appropriate box). Ratio of attendances[12] at meetings of the Board of Directors held in the reporting year in order for him to present a particular topic: 43%, other attendances: _____. ☐ Not relevant (the corporation does not have a controlling shareholder).		✓

[12] Differentiating between the controlling shareholder, his relative and/or anyone acting on his behalf

(*) To assist the Chairman of the Board of Directors of the Company

	Independence of the Board of Directors	Correct	Incorrect
7.	In the Articles of Association of the corporation, there is no provision that limits the possibility of immediately terminating the term of office of all directors in the corporation, who are not External Directors (in this regard - determination by a simple majority is not considered a limitation)[13]. If your answer is "incorrect" (i.e., there is a limitation as stated) it should be noted ______	✓	
	a. The period of time stipulated in the Articles for the term of office of a director: ______.		
	b. The necessary majority stipulated in the Articles of Association to terminate the term of office of the directors: ______.		
	c. Legal quorum determined in the Articles at the General Meeting to end the term of office of the directors: ______.		
	d. The majority required to change these provisions in the Articles: ______.		
8.	The corporation has taken steps to hold a training program for new directors, in the area of the corporation's business and in the area of law applicable to the corporation and the directors, and also arranged for the preparation of a continuing training program for incumbent directors, adapted, inter alia, to the duties performed by the director in the corporation. If you answer "Correct" – state whether the program was in operation in the reporting year: ☒ Yes ☐ No (Place an X in the appropriate box)	✓	
9.	a. The corporation has prescribed the minimum number of directors on the Board of Directors that are required to possess accounting and financial expertise. If you answer "Correct" – state the minimum number prescribed: 2	✓	
	b. Number of directors that served in the corporation during the reporting year: Possessing Accounting and Financial Expertise: 4[14]: Possessing Professional Qualifications 1[15]. In the event of there being changes in the number of the directors as aforesaid in the reporting year, the figure to be provided will be the lowest number (except in the 60-day time period from the occurrence of the change) of directors of each type who served in the reporting year.		

[13] A bond company is not required to answer this section.

[14] After the evaluation of the Board of Directors, in accordance with the provisions of the Company Regulations (Conditions and Tests for a Director with Accounting and Financial Expertise and for a Director with Professional Qualifications), 2005

[15] See footnote 9

	Independence of the Board of Directors	Correct	Incorrect
10.	a. Throughout the reporting year, the composition of the Board of Directors included members of both sexes. If you answer "Incorrect" – note the time period (in days) during which the aforesaid did not apply: _____. This question can be answered "Correct" if the time period in which directors of both sexes were not serving does not exceed 60 days, but whatever the answer (Correct/Incorrect), the time period (in days) is to be stated during which Directors of both sexes were not serving with the corporation: _____.	✓	
	b. Number of directors of each sex serving on the Board of Directors of the corporation as of the date of publishing this questionnaire: Men: 4, Women: 1.	______	______
11.	a. Number of meetings of the Board of Directors held during each quarter of the reporting Year: First quarter (Year 2022): 3 Second quarter: 6 Third quarter: 7 Fourth quarter: 12	______	______
	Meetings of the Board of Directors (and Convening a General Meeting)		
12.	a. In the reporting year, the Board of Directors held at least one discussion regarding the management of the corporation's business by the Chief Executive Officer and the officers subordinate to him, without their presence and they were given the opportunity to express their position.	✓	

	Meetings of the Board of Directors (and Convening a General Meeting)					Correct	Incorrect
12.	b. Against the name of each of the directors who served with the corporation during the Reporting Year state the ratio[16] of attendance in meetings of the Board of Directors (in this subsection – including meetings of committees of the Board of Directors of which the director is a member, and as noted below) that were held during the reporting year (and in relation to his term of office): (Additional rows should be added in accordance with the number of directors.)					______	______
	Guy Bernstein	92%					
	Eliezer Oren	100%					
	Itiel Efrat	100%	100%	100%	100%		
	Yafit Keret	100%	100%	100%	100%		
	Pinhas Greenfeld	100%	100%	100%	100%		

[16] See footnote 2.

	Separation of the Functions of the President & CEO and the Chairman of the Board of Directors	Correct	Incorrect
13.	Throughout the reporting year, a Chairman of the Board of Directors served in the corporation. This question can be answered "Correct" if the time period in which a Chairman of the Board of Directors was not serving in the corporation does not exceed 60 days, as referred to in Section 363a(2) of the Companies Law, but whatever the answer (Correct/Incorrect), the time period (in days) is to be noted during which a Chairman of the Board of Directors was not serving with the corporation, as stated: ____.	✓	
14.	Throughout the Reporting Year, a Chief Executive Officer served with the corporation. This question can be answered "Correct" if the time period in which a Chief Executive Officer was not serving in the corporation does not exceed 90 days, as referred to in Section 363A(6) of the Companies Law, but whatever the answer (Correct/Incorrect), the time period (in days) is to be noted during which a President & CEO was not serving with the corporation, as stated: ____.	✓	
15.	In a corporation in which the Chairman of the Board of Directors also serves as the Chief Executive Officer of the corporation and/or exercises the powers thereof, the dual service was approved pursuant to the provisions of Section 121(c) of the Companies Law[17]. ✓ Not relevant (so long as the aforesaid dual service does not exist in the corporation).		
16.	The Chief Executive Officer is <u>not</u> a relative of the Chairman of the Board of Directors. If you answer "Incorrect" (i.e., the Chief Executive Officer is a relative of the Chairman of the Board of Directors)		
	a. State the family relationship between the parties: ________. ._____	_____	_____
	b. The service was approved pursuant to Section 121(c) of the Companies Law[18]: ☐ Yes ☐ No Mark X in the appropriate box	_____	_____
17.	A controlling shareholder or his relative does not serve as the Chief Executive Officer or as a senior officer of the corporation, except as a director. ☐ Not relevant (the corporation does not have a controlling shareholder).	✓	

[17] In a debenture company – approval pursuant to Section 121(d) of the Companies Law
[18] In a debenture company – approval pursuant to Section 121(d) of the Companies Law

	Duties of the Committee for the Examination of the Financial Statements (hereafter – the Committee) in its Work prior to the Approval of the Financial Statements	Correct	Incorrect
25.	a. Note the time period (in days) prescribed by the Board of Directors as being a reasonable time for sending the Committee's recommendations prior to the discussion at the Board of Directors for approving the financial statements: 72 hours including at least one business day	_____	_____
	b. Number of days that actually elapsed between the date of sending the recommendations to the Board of Directors and the date of the discussion in the Board of Directors for approving the financial statements: First quarter report (Year 2022): 3. Second quarter report: 5. Third quarter report: 3. Annual report: 5	_____	_____
	a. Number of days that elapsed between the date of sending the draft financial statements to the directors and the date of the discussion in the Board of Directors for approving the financial statements: First quarter report (Year 2022): 9. Second quarter report: 8. Third quarter report: 7. Annual report: 10.		
26.	The Independent Auditor of the corporation participated in all the meetings of the Committee and the Board of Directors, at which discussions took place regarding the corporation’s financial statements relating to the periods included in the reporting year. If you answer “Incorrect” – note the ratio of meetings attended by the Independent Auditor: ____.	✓	

	Duties of the Committee for the Examination of the Financial Statements (hereafter – the Committee) in its Work prior to the Approval of the Financial Statements	Correct	Incorrect
27.	Throughout the reporting year and until the publication of the Annual Report, the Committee fulfilled all the conditions detailed below:	______	______
	a. Its members numbered at least three (at the date of the discussion in the Committee and the approval of the aforesaid reports).	✓	
	b All the conditions stipulated in Section 115(b) and (c) of the Companies Law (regarding the service of members of the Audit Committee) were fulfilled.	✓	
	c. The Chairman of the Committee is an External Director.	✓	
	d. All its members are directors and a majority of its members are Independent Directors.	✓	
	e. All its members are capable of reading and understanding financial statements and at least one of the Independent Directors possesses accounting and financial expertise.	✓	
	f. The members of the Committee provided a declaration prior to their appointment.	✓	
	g. A legal quorum for holding discussions and making decisions at the Committee was a majority of its members, provided that the majority of those present were Independent Directors, and among them was at least one External Director.	✓	
	If you answer "Incorrect" with regard to one or more of the subsections to this question, note with respect to which report (periodic/quarterly) the aforesaid condition was not fulfilled and also the unfulfilled condition: _______.	______	______

	Remuneration Committee	Correct	Incorrect
28.	The Committee comprised, in the reporting year, at least three members and the External Directors constituted the majority thereof (on the date of the discussion in the Committee). ☐ Not relevant (no discussion was held.	✓	
29.	The terms of tenure and employment of all members of the Remuneration Committee in the reporting year are in accordance with the Companies Regulations (Rules Regarding Remuneration and Expenses for External Directors), 2000.	✓	
30.	The following did not serve on the Remuneration Committee in the Reporting Year.	______	______
	• The controlling shareholder or his relative. ☐ Not relevant (the corporation does not have a controlling shareholder)	✓	
	• The Chairman of the Board of Directors	✓	
	• A director who is employed by the corporation or by the controlling shareholder of the corporation or by a corporation under his control.	✓	
	• A director who regularly provides services to the corporation or to the controlling shareholder of the corporation or to a corporation under his control	✓	
	• A Director whose main source of income is the controlling shareholder. ☐ Not relevant (the corporation does not have a controlling shareholder)	✓	
31	A controlling shareholder or his relative were not present in the reporting year at meetings of the Remuneration Committee, unless determined by the Chairman of the Committee that any of them is needed in order to present a particular topic.	✓	

	Internal Auditor	Correct	Incorrect
33.	The Chairman of the Board of Directors or the Chief Executive Officer of the corporation has organizational responsibility for the Internal Auditor in the corporation.	✓	
34.	The Chairman of the Board of Directors or the Audit Committee approved the work plan in the reporting year. In addition, the audit topics dealt with by the Internal Auditor in the reporting year should be noted: (Place an X in the appropriate box). See section 3.4 (5) to the Report of the Board of Directors.	✓	
35.	The scope of the Internal Auditor's work in the corporation in the reporting year (in hours[19]): 97,920 hours. See section 3.4 (6) to the Report of the Board of Directors.	______	______
	In the reporting year, a discussion was held (at the Audit Committee or at the Board of Directors on the Internal Auditor's findings.	✓	
36.	The Internal Auditor is not an interested party in the corporation, his relative, an independent auditor or anyone acting on its behalf and also does not maintain material business relations with the corporation, its controlling shareholder, his relative or corporations under their control.	✓	

[19] Includes work hours invested in investee corporations and in overseas auditing, as the case may be.

	Transactions with Related Parties	Correct	Incorrect
37.	The controlling shareholder or his relative (including a company under his control) is not employed by the corporation, nor does he provide it with management services. If you answer "Incorrect" (i.e., the controlling shareholder or his relative is employed by the corporation or provides it with management services), note _________ The number of relatives (including the controlling shareholder) employed by the corporation (including companies under their control and/or by means of management companies): _____. - Have the employment and/or management services agreements with the aforesaid been approved by the organs prescribed by law: ☐ Yes ☐ No (Place an X in the appropriate box) ☐ Not relevant (the corporation does not have a controlling shareholder). ___	✓	
38.	To the best of the corporation's knowledge, the controlling shareholder does not have other businesses in the corporation's field of activity (in one or more fields). If you answer "Incorrect" – note whether an arrangement has been prescribed to delineate transactions between the corporation and its controlling shareholder: ☐ Yes ☐ No (Place an X in the appropriate box) ☐ Not relevant (the corporation does not have a controlling shareholder).		✓

Yafit Keret, External Director. Chairman of the Committee for Examining the Financial Statements	Itiel Efrat, External Director Chairman of the Audit Committee	Guy Bernstein Chairman of the Board of Directors

Date of signature: 12.03.23