



MATRIX I.T. LTD

Interim Financial
Statements

As of September 30, 2023



CHAPTER A



Report of the Board
of Directors
for the period ended
September 30, 2023

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United in our profound pain, Matrix remembers Aviv Kutz, VP of Matrix' subsidiary, and his family, who were brutally murdered. We share in the grief of all the families of the fallen and the murdered, wish for complete healing and a speedy recovery for the injured, and pray for the return of all those who were abducted, as soon as possible, and the strength of our security forces to succeed in their critical mission



In the picture, the members of Kutz family- Aviv, Livnat, Rotem, Jonathan and Yiftach, (May "Hashem" avenge their blood).



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 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 of information technology and advanced management to hundreds of customers in the Israeli market.

The Company has five (5) segments of activity - (1) Information technology solutions and services, consulting and management in Israel (hereafter also “**I.T. Solutions, Consulting and Management in Israel**”) ; (2) Information technology solutions and services in the United States (hereafter also “**I.T. Solutions in USA**”); (3) Sales, marketing and support of software products (hereafter also “**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 ecosystem

The business environment in which the company operates is directly affected by local and global trends and events, primarily:

Operation "Iron Swords" - Disclosure regarding the consequences of Operation "Iron Swords" on our business results (after the reporting period)

General

On October 7, 2023, after the date of the financial statements, Operation "Iron Swords" (hereinafter - the war) broke out in the State of Israel. This followed a murderous attack by terrorist organization, Hamas, on communities and cities bordered with Gaza as well as in the south of the country which, according to currently-available data, claimed the lives of approximately 1,400 Israelis, and injured thousands more. In addition, at the time of writing, approximately 240 Israeli citizens and soldiers are defined as hostages.

The war has also extended into the north, and affects central Israel and the Israeli home front, throughout the country. In light of the war, hundreds of thousands of Israelis have been evacuated from their homes, and massive recruitment to the Israeli Defense Force of reserve personnel (estimated at about 8% of the economy's labor force) was carried out, and will continue for an unknown period of time. In addition, the war has resulted in a series of consequences and restrictions, such as the closing of many businesses, and in particular the closing of factories in the south and north of the country; restrictions on gatherings; restrictions on studies in the education system; damage to infrastructure, and more. The war situation has led to a slowdown in business activity in the entire Israeli economy, leading to a sharp decline in Israel's financial markets. The rising trend in the exchange rates of the dollar and the euro against the shekel has also intensified.

The continuation of the state of war - which its full scope, duration and effects are still unclear at the time of this report - may have wide-ranging consequences for various business activities and geographical areas of the country, as well as of the entire economy, in terms of manpower availability, fluctuations in foreign exchange rates, risk of a downgrade in Israel's credit rating, availability of materials, products and services, impact on the capital and debt market and more.

The consequences of the war on business results (after the reporting period)

Current work and business continuity

When the war broke out, the company continued to work, in a work-from-home format. After a short period, personnel returned to work in a "wartime routine", in a hybrid format. As at the date of this report, work is ongoing and the company continues to provide services and products to its customers as usual. Meanwhile, the company's management holds frequent discussions, closely monitoring the development of matters concerning employees, customers and suppliers.

Finance and liquidity matters

The company is financially robust (for details regarding the company's credit rating - Aa3` outlook stable, see Appendix A to this Board of Directors' report), which is reflected, among other things, in a large balance of liquid assets (cash and unused credit facilities), business diversification in a wide range of business activities (for details, see the distribution of the company's customers according to business activities, set out in para. 2 of the chapter A in the Annual Report), and appropriate leverage and coverage ratios (see section 1.3 below of this Board of Directors' report). as of the date of publication of the report (November 2, 2023), the company's cash balance amounted at approximately NIS 700 million, and the balance of unused credit facilities was approximately NIS 940 million. The company has no pledged assets, and does not anticipate any impact on its compliance with the financial standards with which it is bound to comply.

The company estimates that its financial strength, together with its cash balance, its unused credit facilities and cash flow from operation, will enable it to continue to finance its business operations, while fully complying with its obligations, should war continues for long term.

Impact on business results

as of the publication date of this report, approximately 700 of the company's employees had been drafted to the reserve duties. This is expected to have a negative impact on the company's profitability in the immediate term, due, among other things to the State offering only partial compensation for reservist employees (and no compensation at all for loss of profit).

Also, the business segment of training and implementation (which constitutes less than 4% of the company's turnover) has experienced reduced levels of activity during the war, due to the difficulty of running courses given the restrictions imposed by the Home Front Command, among other things.

In the medium and long term, as long as the war continues and has a negative effect on the level of economic activity in the Israeli economy as a whole, or on certain industries (such as commerce, industry, real estate, retail, tourism, etc.), and/or on certain government offices and organizations (for example due to cutting of office budgets in order to increase the defense budget to finance the war), this may have an effect on the financial resilience of some of the company's customers, and/or lead to a decrease in demand and a reduction in their procurement and IT budgets, which would affect the company's business activities with those customers and/or affect their payment morale.

In addition to the potential negative effects, there are several factors in connection with the company's activities that may moderate the aforementioned effects, including the following:

- o The company has a large spread of customers (over 3,000 active customers), most of them large, financially-stable companies and entities.
- o The company's overseas activity (mostly in the USA) constitutes about 20% of its operating profit, and is not expected to be affected by the war.
- o The company has extensive activity in strong sectors such as government, public organizations, defense, finance, health and transportation (see the distribution of the company's customers according to industries, set out in para. 2 of chapter A to the Annual Report).
- o The company has limited activity with medium and small customers, whose exposure to the negative effects of the war is relatively high.
- o The company has a wide spread of business activities, including areas that are relatively "immune" to the potential negative effects of the war, such as its cyber, defense and engineering divisions, among others.

Since this is an event characterized by high uncertainty, and as of this date there is no available information regarding its duration and the intensity of its impact on the economy, particularly not in the medium and long term, the company does not have the ability to assess the full impact of the war its business and future financial results.

All of the above is based on the information that the company has in its possession, as at the time of publication of this report. It should be noted that the consequences of the war on business activity in Israel in general, and the company in particular, have not yet been definitively clarified, and therefore there may be further future developments, as well as further future effects on the company's activities and results.

At this stage, the company is unable to assess the full future effects of the war on the economic situation in Israel in general, and the company's activities in particular, and is unable to assess the full future effects of the war on trends in the business environment that existed before it began, such as the increase in inflation and interest rates, the high-tech industry crisis, and exchange rate fluctuations (for details regarding these trends, see section 1.1.2 of the Board of Directors' annual report, insofar as the adverse effect of the war on these trends may also lead to damage to the company's results).

As a precautionary measure, due to uncertainties, as described above, regarding the impact of the war on the company's business, the company's Board of Directors accepted at its meeting on November 9, 2023 the decision of the CEO, and senior management of the company to take a 30% cut in their monthly salary, for a period of at least 30 days. In addition, the Board of Directors decided to postpone the date on which a decision will be made regarding the distribution of dividends for the third quarter of 2023, to the date of approval of the 2023 annual reports, with no change to the company's dividend distribution policy (for further details, see section 1.2.5 below).

The information in this section regarding the company's assessments of the consequences of the war on its activities, being consequences and effects of the war that is still in progress and whose full impact and consequences have not yet been clarified, is forward-looking information, as defined in the Securities Law, 5578-1968 (the "Securities Law"), based on the management's estimates and its business experience and assumptions, various scenarios, analysis and public information, as well as the estimates of research companies and analysts as at the date of the report. The information may not be realized, in whole or in part, or may be realized in a different way, including in a more material way than expected, among other things, as a result of the high level of uncertainty, economic instability, developments that cannot be estimated at this stage in connection with the war, its duration, intensity and impact, including in relation to the functioning of the economy and the home front, as a result of competition in the market, economic slowdown or instability in the economy, and as a result of the realization of all or part of the risk factors appearing in section 19 of the periodic report.

1.1.3 Significant events during the reporting period

Acquisition of Zebra

On January 1, 2023, the Company acquired 70% of the share capital of Zebra A.G.R Ltd. ("Zebra"), for NIS 53 million (including payment for equity). Zebra is engaged in the distribution and marketing of solutions and software products in the fields of information security , cyber protection and data communication. Zebra is consolidated in the Company's financial statements starting in the first quarter of 2023, in the Sales, marketing and support of Software products segment.

Share based payments for officers and senior managers

Further to the renewal of the contract with the CEO of the company, Mr. Moti Gutman, in a new employment agreement for a period of 5 years, starting on January 1, 2023 and ending on December 31, 2027, the Company allocated on February 1, 2023 to the CEO, cashless, 375,000 restricted shares (RSU). For more details, see note 16d to the annual financial reports for 2022.

In addition, following the approval of the Company's Board of directors and the Compensation committee as of March 12, 2023, the Company allocated on March 29, 2023, 920,000 exercisable options for up to 920,000 shares of the company, to 18 officers and senior managers of the Company and subsidiaries. For more details see immediate reports dated 3/13/2023 reference 2023-01-026148 and dated 3/27/2023 reference 2023-01-032538 and note 4c to the financial reports.

Win of tender in a material project

On August 20, 2023, the company received a notification regarding the decision of the tender committee of NETA - Urban Transport Routes Ltd., according to which the proposal of a profit-making special partnership (SPV) established for the tender process by a subsidiary of the company, Dana Engineering Ltd. (which shared a 36% share in the partnership), was selected as the winner of the planning tender, for the management of the planning , and to manage the execution of the M1 line of the Tel Aviv Metropolitan - the Metro (the "Project"). The duration of the project is estimated at approximately 13 years, the cost of constructing the M1 metro line is estimated at approximately 80 billion NIS, and the scope of the partnership fee for the project was estimated at approximately NIS 2 billion. For more details see immediate report dated 8/21/2023 reference 2023-01-096171.

1.1.4 Condensed statements of consolidated income for the period three months and nine months ended September 30, 2023 and 2022 (NIS in thousands)

	3 months ended,		Change in %	9 months ended,		Change in %
	30.09.23	30.09.22		30.09.23	30.09.22	
Sales turnover	1,333,520	*1,130,247	18%	3,911,415	*3,453,904	13.2%
Cost of sales and services	1,146,416	*968,844	18.3%	3,350,651	*2,965,114	13.0%
Gross profit	187,104	161,403	15.9%	560,764	488,790	14.7%
% of Sales	14.0%	14.3%		14.3%	14.2%	
Selling and marketing expenses	47,986	41,045	16.9%	138,423	120,350	15%
General and administrative expenses	45,839	40,218	14.0%	129,934	112,004	16%
Operating profit before gain from realization of investment	93,279	80,140	16.4%	292,407	256,436	14%
% of Sales	7.0%	7.1%		7.5%	7.4%	
Gain from realization of investment	-	-		-	150,059	
Operating profit after realization of investment	93,279	80,140	16.4%	292,407	406,495	-28.1%
Financing expenses, net	17,007	10,875	56.4%	49,325	21,927	125.0%
Profit before deduction of taxes on income	76,272	69,265	10.1%	243,082	384,568	-36.8%
Taxes on income	19,507	18,828	3.6%	58,148	83,332	-30.2%
Net income	56,765	50,437	12.5%	184,934	301,236	-38.6%
% of Sales	4.3%	4.5%		4.7%	8.7%	
Net earnings attributable to:						
Shareholders of the Company	51,439	46,507	10.6%	170,796	284,535	-40.0%
Non-controlling interests	5,326	3,930	35.5%	14,138	16,701	-15.3%
Net income	56,765	50,437	12.5%	184,934	301,236	-38.6%
% of Sales	4.3%	4.5%		4.7%	8.7%	
EBITDA¹	145,431	127,769	13.8%	442,018	375,574	17.7%
% of Sales	10.9%	11.3%		11.3%	10.9%	

* Reclassified

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

Main results of the Company's activity neutralizing the effect of Capital gain from realization of investment in a Subsidiary, last year (NIS in thousands)

	3 months ended, 30.09.23	3 months ended, 30.09.22	Change in %	9 months ended, 30.09.23	9 months ended, 30.09.22	Change in %
Sales turnover	1,333,520	*1,130,247	18.0%	3,911,415	*3,453,904	13.2%
Operating profit	93,279	80,140	16.4%	292,407	256,436	14%
Net profit	56,765	50,437	12.5%	184,934	179,677	2.9%
Net profit attributable to Shareholders	51,439	46,507	10.6%	170,796	162,976	4.8%

(*) Reclassified

1.2. Analysis of results activity

1.2.1 Seasonality

The third quarter (similar to the corresponding quarter last year) was affected by the "Tishrei festivities", that happened during the third and fourth quarter. However, in the third quarter and cumulative period of this year (as in the corresponding quarter and cumulative period last year) the number of working days were similar, compared to the third quarter and cumulative period of 2023. ("seasonality" - see also section 9 on the Report on the description of the Corporation's Business in the Annual report as of December 31,2022).

1.2.2 Analysis of results of consolidated income

1) **Sales** of the Company in the quarter amounted to NIS 1,333.5 million compared to NIS 1,130.2 million in the corresponding quarter last year, an increase of 18%. The Company's sales in the period amounted to approximately NIS 3,911.4 million compared to approximately NIS 3,453.9 million in the corresponding period last year, an increase of approximately 13.2%. The increase in the company's sales in the third quarter and in the cumulative period, in relation to the corresponding periods last year is due to an increase in activity in the IT Software Solutions and Services, Consulting & Management in Israel, and Cloud Infrastructure and Computer Solutions sectors, during the quarter and the period compared to the corresponding period last year. The increase in the volume of sales was partially offset by the decrease of revenues in the Training and Implementation sector in relation to corresponding periods last year. The volume of sales in the cumulative period was positive affected by the initial consolidation of Zebra's activities (initial consolidated in the first quarter 2023). The volume of sales in the cumulative period was also affected by the initial consolidation of RDT's activities (initial consolidated in the third quarter 2022) and also affected by the sale and termination of the consolidation of the Subsidiary Infinity (at the end of the first quarter 2022). Neutralizing the aforementioned effects, the Company recorded an organic growth in revenues of approximately 17.2% and 11.9% in the third quarter and cumulative period, accordingly.

2) Gross profit in the quarter amounted to approximately NIS 187.1 million(which accounted for approximately 14% of sales), compared to about NIS 161.4 million in the corresponding quarter last year(approximately 14.3% of sales), which represented an increase of about 15.9%. The gross profit in the period amounted to approximately NIS 560.8 million (approximately 14.3% of sales), compared to about NIS 488.8 million in the corresponding period last year (about 14.2% of sales), an increase of about 14.7%. The increase in gross profit in the third quarter and in the cumulative period, compared to the corresponding periods last year, is mainly due to the increase in sales.

3) Sales, marketing, management and general expenses in the quarter amounted to approximately NIS 93.8 million, which accounted for approximately 7% of sales, compared to approximately NIS 81.2 million in the corresponding quarter last year, (which accounted for approximately 7.2% of sales). Sales, marketing, management and general expenses in the period amounted to approximately NIS 268.3 million, which accounted for approximately 6.9% of sales, compared to approximately NIS 232.3 million in the corresponding period last year, (which accounted for approximately 6.7% of sales).

The main increase in sales, marketing, management and general expenses during the quarter and the period is attributed to expenses for capital compensation to officers and managers in the amount of approximately NIS 4.4 and 11.6 million in the quarter and period, respectively (compared to approximately NIS 0.3 and 1 million in the corresponding periods last year), as well as intangible asset amortization expenses (Customers basis and backlog of orders, which were recognized in M&A transactions) amounting to approximately 5.9 and 19.9 million NIS in the quarter and period, respectively (compared to approximately 5.6 and 15.3 million NIS in the corresponding period last year).

4) Operating profit - The operating profit before Profit from realization of Subsidiary (profit from normal operations) in the quarter amounted to approximately 93.3 million NIS (approximately 7% of sales), compared to approximately 80.1 million NIS in the corresponding quarter last year (approximately 7.1% of sales), an increase of approximately 16.4%. The profit from regular operations in the period amounted to about 292.4 million NIS (approximately 7.5% of sales), compared to about 256.4 million NIS in the corresponding period last year (approximately 7.4% of sales), an increase of approximately 14%.

The main increase in the amount of the operating profit in third quarter compared to the corresponding quarter last year is due to Software product marketing and support sector and to the Cloud infrastructure and computer solutions sector.

The main increase in the amount of the operating profit in the period compared to the corresponding quarter last year is due to Information Technologies (IT) Software solutions and services in US sector, Software product marketing and support sector and to the Cloud infrastructure and computer solutions sector.

As detailed in the Sales section above, neutralizing the effect of the merger for the first time of RDT and Zebra and the sale of Infinity, as mentioned, the Company recorded organic growth in operating profit at a rate of approximately 13.5% and approximately 12.8% in the third quarter and the cumulative period, respectively.

5) Capital gain from the realization of an investment

In the second quarter of 2022, the company recognized a Capital gain from the sale of most of its holdings in Infinity in the amount of approximately NIS 150.1 million before tax and a total of approximately NIS 121.6 million after income taxes. For more details, see note 3(e) to the annual Financial statements.

6) Financial expenses / income (net)

Financial expenses (net) for the quarter totaled approximately NIS 17 million compared to financial expenses (net) totaling approximately NIS 10.8 million in the corresponding quarter last year.

Financing expenses (net) in the period amounted to approximately NIS 49.3 million compared to financing expenses (net) totaling about NIS 21.9 million in the corresponding period last year.

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

	3 months ended, 30.09.23	3 months ended, 30.09.22	9 months ended, 30.09.23	9 months ended, 30.09.22
Interest, commission and other (net)	9,425	8,000	31,117	19,069
Exchange rate differences – expenses (income)	277	(1,649)	(4,448)	(7,559)
Accounting financial expenses*	7,305	4,524	22,656	10,417
Total financing expenses (net)	17,007	10,875	49,325	21,927

* Financial expenses due to leases, Put Liability to non-controlling interests in subsidiaries adjustments, actuarial liabilities to employees adjustments.

As detailed above, the main change in net financing expenses, in the quarter and the period compared to the corresponding periods last year, derives from an increase in interest expenses on the Company's financial liabilities(net of financial income on investments and deposits), due to the increase in interest rates in the economy, decrease in foreign exchange rate gains, in addition to the increase of accounting financial expenses derived from the revaluation of lease liabilities and revaluation of Put options to Non-controlling Interests(which are not cash flow movements).

7) Taxes on income

The tax expenses for the quarter amounted to about 19.5 million NIS (about 25.6% of the profit before tax), compared to about 18.8 million NIS in the corresponding quarter last year (about 27.2% of the profit before tax).

The tax expenses in the period amounted to about 58.1 million shekels (about 23.9% of the profit before tax), compared to about 83.3 million NIS in the corresponding period last year (about 21.7% of the profit before tax).

The decrease in tax expenses in the period (with an increase in the tax rate compared to the corresponding periods) is mainly due to the effect of the Infinity Sale transaction in the second quarter of 2022, which was accompanied by a one-time increase in taxable profit alongside recognition for the first time of deferred taxes resulting from the expectation of their realization.

8) Net profit

The net profit attributable to the shareholders in the quarter amounted to about 56.7 million NIS (approximately 4.3% of sales), compared to about 50.4 million (approximately 4.5% of sales) in the corresponding quarter last year, increase of approximately 12.5%.

The net profit in the period amounted to approximately NIS 184.9 million NIS (approximately 4.7% of sales), compared to approximately NIS 301.2 million NIS in the corresponding period last year (approximately 8.7% of sales). Excluding the net capital gain from the sale of Infinity, the net profit for the period last year was approximately NIS 179.7 million NIS (approximately 5.2% of sales) - reflecting an increase of approximately 2.9% compared to the corresponding period last year.

9) Net profit attributable to Shareholders` of the Company

The net profit attributable to the shareholders in the quarter amounted to about 51.4 million NIS (approximately 3.9% of sales), compared to about 46.5 million (approximately 4.1% of sales) in the corresponding quarter last year.

The net profit attributable to the shareholders in the period amounted to approximately NIS 170.8 million (approximately 4.4% of sales), compared to approximately NIS 284.5 million in the corresponding period last year. Excluding the Capital gain from the Sale of Infinity, the Net profit attributable to the shareholders for the period last year was approximately NIS 162.9 million (approximately 4.7% of sales) reflecting an increase of approximately 4.8% compared to the corresponding period last year.

10) Total comprehensive income (NIS in thousands)

	3 months ended, 30.09.23	3 months ended, 30.09.22	9 months ended, 30.09.23	9 months ended, 30.09.22
Net profit	56,765	50,437	184,934	301,236
Other comprehensive income (after the effect of tax):				
Gain (loss) from remeasurement in respect of defined benefit plans	1,516	1,887	3,985	7,129
Change in fair value of instruments used for cash flow hedging	200	(681)	(644)	(681)
Adjustments arising from the translation of financial statements	12,535	1,008	30,213	35,215
Total comprehensive income	71,016	52,651	218,488	342,899

11) EBITDA (NIS in thousands) Profit before interest, taxes, depreciation and amortization

The EBITDA figure is included in the report because it is an accepted index for measuring the results of operations in similar companies, and because it is an approximation of operating profit cash flow, which neutralizes from the operating profit expenses that do not involve cash flows, such as depreciation and amortization expenses, including those for intangible assets acquired as part of business combinations. It should be stated, that in the EBITDA figures for the period last year, the Company neutralized the Capital gain from the realization of Infinity.

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

	3 months ended, 30.09.23	3 months ended, 30.09.22	9 months ended, 30.09.23	9 months ended, 30.09.22
Operating profit	93,279	80,140	292,407	256,436
Depreciation and amortization	52,152	47,629	149,611	119,138
EBITDA	145,431	127,769	442,018	375,574
% of total sales	10.9%	11.3%	11.3%	10.9%
Canceling the effect of IFRS 16 ²	35,684	34,946	101,593	78,504
EBITDA after canceling the effect of IFRS 16	109,747	92,823	340,425	297,070
% of total sales	8.2%	8.2%	8.7%	8.6%

12) Net earnings per share attributable to the Company's shareholders (in NIS)

	3 months ended, 30.09.23	3 months ended, 30.09.22	9 months ended, 30.09.23	9 months ended, 30.09.22
Basic Net earnings per share	0.81	0.74	2.69	4.53
Diluted Net earnings per share	0.81	0.74	2.69	4.51

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

1.2.3 Summary of consolidated profit and loss results by segments of activity for the period of three and nine months ended September 30, 2023 and September 30, 2022 (NIS in thousands)

	3 months ended, 30.09.23	3 months ended, (*) 30.09.22	Change in %	9 months ended, 30.09.23	9 months ended, (*) 30.09.22	Change in %
Revenues according to activity segment:						
Information technology solutions and services , consulting and management in Israel ⁽¹⁾	735,500	597,045	23.2%	2,199,465	1,906,834	15.3%
Information technology solutions and services in the United States ⁽²⁾	126,279	125,741	0.4%	357,223	312,342	14.4%
Sales, marketing and support of software products	79,777	53,192	50.0%	224,463	184,163	21.9%
Cloud infrastructures and computing	387,027	338,779	14.2%	1,118,278	997,777	12.1%
Training and implementation	44,038	50,157	-12.2%	143,368	159,184	-9.9%
Adjustments between segments	(39,101)	(34,667)		(131,382)	(106,396)	
Total revenues	1,333,520	1,130,247	18.0%	3,911,415	3,453,904	13.2%
Operating profit⁽³⁾						
Information technology solutions and services , consulting and management in Israel ⁽¹⁾	43,868	43,128	1.7%	147,284	142,243	3.5%
Information technology solutions and services in the United States ⁽²⁾	19,972	19,179	4.1%	52,968	43,041	23.1%
Sales, marketing and support of software products	8,121	2,546	219.0%	21,032	11,763	78.8%
Cloud infrastructures and computing	21,322	18,747	13.7%	64,585	55,483	16.4%
Training and implementation	2,017	3,542	-43.1%	14,143	15,114	-6.4%
Adjustments between segments	(2,021)	(7,002)		(7,605)	(11,208)	
Operating profit	93,279	80,140	16.4%	292,407	256,436	14.0%

¹ Including immaterial activity in Europe

² Including immaterial activity in Canada

³ Does not include Gain from realization of Infinity in second quarter, 2022

	3 months ended, 30.09.23 Percentage	3 months ended, 30.09.22 Percentage	9 months ended, 30.09.23 Percentage	9 months ended, 30.09.22 Percentage
Rate of operating profit³:				
Information technology solutions and services , consulting and management in Israel ¹	6.0%	7.2%	6.7%	7.5%
Information technology solutions and services in the United States ²	15.8%	15.3%	14.8%	13.8%
Sales, marketing and support of software products	10.2%	4.8%	9.4%	6.4%
Cloud infrastructures and computing	5.5%	5.5%	5.8%	5.6%
Training and implementation	4.6%	7.1%	9.9%	9.5%
Rate of operating profit in %	7.0%	7.1%	7.5%	7.4%

	3 months ended, 30.09.23 Percentage	3 months ended, 30.09.22 Percentage	9 months ended, 30.09.23 Percentage	9 months ended, 30.09.22 Percentage
Rate of revenue according to segment of activity:				
Information technology solutions and services , consulting and management in Israel ¹	53.6%	51.3%	54.4%	53.6%
Information technology solutions and services in the United States ²	9.2%	10.7%	8.8%	8.7%
Sales, marketing and support of software products	5.8%	4.6%	5.6%	5.2%
Cloud infrastructures and computing	28.2%	29.1%	27.7%	28.0%
Training and implementation	3.2%	4.3%	3.5%	4.5%
Total revenues in %	100%	100%	100%	100%

	3 months ended, 30.09.23 Percentage	3 months ended, 30.09.22 Percentage	9 months ended, 30.09.23 Percentage	9 months ended, 30.09.22 Percentage
Rate of contribution to operating profit according to segments of activity:				
Information technology solutions and services , consulting and management in Israel ¹	46.0%	49.5%	49.1%	53.1%
Information technology solutions and services in the United States ²	21.0%	22.0%	17.7%	16.1%
Sales, marketing and support of software products	8.5%	2.9%	7.0%	4.4%
Cloud infrastructures and computing	22.4%	21.5%	21.5%	20.7%
Training and implementation	2.1%	4.1%	4.7%	5.7%
Total operating profit in %	100%	100%	100%	100%

¹ Including immaterial activity in Europe

² Including activity in Canada

³ Does not include Gain from realization of Infinity in second quarter, 2022

	3 months ended, 30.09.23	3 months ended, 30.09.22	Change in %	9 months ended, 30.09.23	9 months ended, 30.09.22	Change in %
Geographic information:						
Revenues:						
Revenues from customers in Israel	1,226,045	1,025,825	19.5%	3,624,584	3,203,333	13.2%
Revenues from customers in the United States	126,279	125,741	0.4%	357,223	312,342	14.4%
Revenues from customers in Europe	20,297	13,348	52.1%	60,990	44,625	36.7%
Adjustments between segments	(39,101)	(34,667)		(131,382)	(106,396)	
Total revenues	1,333,520	1,130,247	18.0%	3,911,415	3,453,904	13.2%
Operating profit³						
Operating profit from customers in Israel	73,509	66,687	10.2%	241,389	220,011	9.7%
Operating profit from customers in the United States	19,972	19,179	4.1%	52,968	43,041	23.1%
Operating profit from customers in Europe	1,819	1,276	42.6%	5,655	4,592	23.1%
Adjustments between segments	(2,021)	(7,002)		(7,605)	(11,208)	
Total operating profit	93,279	80,140	16.4%	292,407	256,436	14.0%

³ Does not include Gain from realization of Infinity in second quarter, 2022

	3 months ended, 30.09.23 Percentage	3 months ended, 30.09.22 Percentage	9 months ended, 30.09.23 Percentage	9 months ended, 30.09.22 Percentage
Rate of revenues on a geographical basis:				
Revenues from customers in Israel	89.3%	88.1%	89.7%	90.0%
Revenues from customers in the United States	9.2%	10.8%	8.8%	8.8%
Revenues from customers in Europe	1.5%	1.1%	1.5%	1.2%
Total revenues in %	100%	100%	100%	100%
Rate of operating profit on a geographical basis³:				
Rate of operating profit in Israel	6.0%	6.5%	6.7%	6.9%
Rate of operating profit in the United States	15.8%	15.3%	14.8%	13.8%
Rate of operating profit in Europe	9.0%	9.6%	9.3%	10.3%
Rate of operating profit in %	7.0%	7.1%	7.5%	7.4%

³ Does not include Gain from realization of Infinity in second quarter, 2022

1.2.4 Analysis of results of activity by segments of activity

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 during this quarter to NIS 735.5 million, compared to about 597 million NIS in the corresponding quarter last year, an increase of approximately 23.2%. Total revenues during the period amounted to approximately 2,199.5 million NIS, compared to about 1,906.8 million NIS in the corresponding period last year, an increase of approximately 15.3%.

Operating profit

The operating profit from Information technology solutions and services, consulting and management in Israel amounted this quarter to about NIS 43.9 million (approximately 6.0% of sales), compared with NIS 43.1 million (approximately 7.2% of sales) in the corresponding quarter last year, an increase of approximately 1.7%. The operating profit from Information technology solutions and services, consulting and management in Israel amounted this period to about NIS 147.3 million (approximately 6.7% of sales), compared with NIS 142.2 million (approximately 7.5% of sales) in the corresponding period last year, an increase of approximately 3.5%.

The increase in revenues compared to the corresponding periods last year is due to an organic increase in the volume of activity in the sector. The moderate increase in operating profit and the decrease in the rate of operating profitability compared to the corresponding periods, was influenced, among other things, by provisions and adjustments made against the background of the uncertainty arising from the "Iron Swords" war and the increase in expenses for share-based compensation (see explanation above, regarding Management and general expenses).

Information technology solutions and services in the United States

Revenues

Revenues from the Information technology solutions and services segment in the United States for the quarter amounted to 126.3 million NIS, compared with 125.7 million NIS in the corresponding quarter last year, an increase of 0.4%. Revenues from the Information technology solutions and services segment in the United States for the period amounted to 357.2 million NIS, compared with 312.3 million NIS in the corresponding period last year, an increase of 14.4%.

Operating profit

Operating profit from the Information technology solutions and services segment in the United States during the quarter amounted to 20 million NIS (approximately 15.8% of sales), compared with 19.2 million NIS (approximately 15.3% of sales) in the corresponding quarter last year, an increase of 4.1%.

Operating profit from the Information technology solutions and services segment in the United States during the period amounted to 53 million NIS (approximately 14.8% of sales), compared with 43 million NIS (approximately 13.8% of sales) in the corresponding quarter last year, an increase of 23.1%.

The growth in revenues and significant growth in the rate of profitability in the segment, is mainly due to an increase in the scope of activity with an emphasis on the field of GRC solutions for the financial sector, which is accompanied by the effect of the increase in the dollar exchange rate in relation to the NIS.

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

	3 months ended, 30.09.23	3 months ended, 30.09.22	Change in %	9 months ended, 30.09.23	9 months ended, 30.09.22	Change in %
Revenues	35	38	(7.9%)	97.9	94.3	3.8%
Operating profit	5.5	5.8	(5.2%)	14.5	13	11.5%
Rate of profit	15.8%	15.3%		14.8%	13.8%	

Sales, marketing and support of software products

Revenues

Revenues from the sales, marketing and support segment for software products in the quarter amounted to NIS 79.8 million, compared to NIS 53.2 million in the corresponding period last year, an increase of 50.0%.

Revenues from the sales, marketing and support segment for software products in the period amounted to NIS 224.5 million, compared to NIS 184.2 million in the corresponding period last year, an increase of 21.9%.

Operating profit

Operating profit from the software product sales, marketing and support segment in the quarter amounted to NIS 8.1 million (approximately 10.2% of sales), compared with NIS 2.5 million (approximately 4.8% of sales) in the corresponding quarter last year, an increase of 219%.

Operating profit from the software product sales, marketing and support segment in the period amounted to NIS 21 million (approximately 9.4% of sales), compared with NIS 11.8 million (approximately 6.4% of sales) in the corresponding period last year, an increase of 78.8%.

The increase in operating profit and improvement of the rate of income of the segment during the quarter and the period, stems mainly from improvement in the rate of operating profitability during the quarter and during the period compared to the corresponding period last year and from the consolidation for the first time of Zebra, during the first quarter of 2023. It should be noted in this regard that Zebra is mainly engaged in the distribution and marketing of software products in the fields of cyber protection and data communication, and in accordance with the accounting rules, most of its revenues are presented on a net basis.

Cloud infrastructure and computing

Revenues

Revenues from the Cloud infrastructure and computing segment during the quarter amounted to NIS 387 million, compared to NIS 338.8 million in the corresponding quarter last year, an increase of 14.2%.

Revenues from the segment during the period amounted to NIS 1,118.3 million, compared to NIS 997.8 million in the corresponding half last year, an increase of 12.1%.

Operating profit

The operating profit from the segment in the quarter amounted to NIS 21.3 million (approximately 5.5% of sales), compared with NIS 18.7 million (approximately 5.5% of sales) in the corresponding quarter last year, an increase of 13.7%.

The operating profit from the segment in the period amounted to NIS 64.6 million (approximately 5.8% of sales), compared with NIS 55.5 million (approximately 5.6% of sales) in the corresponding period last year, an increase of 16.4%.

The increase in revenues, operating profit and profitability rate of the segment, in the quarter and 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 (starting in the third quarter of 2022).

Training and implementation

Revenues

Revenues from the Training and implementation segment during the quarter amounted to NIS 44 million, compared with NIS 50.2 million in the corresponding quarter last year, a decrease of 12.2%.

Revenues from segment during the period amounted to NIS 143.4 million, compared with NIS 159.2 million in the corresponding period last year, a decrease of 9.9%.

Operating profit

Operating profit from the Training and implementation segment in the quarter amounted to NIS 2 million (approximately 4.6% of sales), compared with a profit of NIS 3.5 million (approximately 7.1% of sales) in the corresponding quarter last year, a decrease of 43.1%.

Operating profit from the segment in the period amounted to NIS 14.1 million (approximately 9.9% of sales), compared with a profit of NIS 15.1 million (approximately 9.5% of sales) in the corresponding period last year, a decrease of 6.4%.

The decrease in revenues and operating profit of the sector in the second quarter and in the cumulative period, reflects a decrease in demand for training activities, compared to the corresponding periods last year, against the background of the cooling of the labor market in the high-tech industry. In this regard, it should be noted that the training and implementation sector constitutes less than 4% of the scope of the company's activity. For details regarding potential positive effects on society as a whole, of the trend of reducing manpower in hi-tech companies, among other things on the ability to recruit and retain employees and a slowdown in wage increase pressures, see section 1.1.2 of the report, at the same time, there is a positive effect on the ability to recruit and retain employees and a slowdown in pressure for demanding wage increases in the Company as a whole.

1.2.5 Commitments and special events

Distribution of dividend

Date of distribution	Dividend rate per share (In Agorot)	Amount of dividend (NIS millions)
16.04.23	59	37.5
05.06.23	71	45.1
03.09.23	69	43.8
Total as of 30.09.2023	199	126.4
Total as of 30.09.2022*	397	249.6
Change in %		-49.4%

*Includes special dividend in the amount of 121.5 million NIS from realization of 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 half subject to the distribution tests in the law, which are examined by the Board of Directors at any relevant time.

Rating

On March 28, 2023, Midroog confirmed an Aa3 issuer rating with a stable outlook for the Company.

Purchase of Directors and Officers insurance policy

On June 7, 2023, the compensation committee of the company approved the renewal of an engagement for the liability insurance of directors and officers in the company (including the CEO) and in the subsidiaries and included companies of the company as they will be from time to time, including the SIDE A DIC D&O policy, starting on June 17, 2023.

The insurance coverage is within the limits of liability of 30 million dollars per case and period, and the coverage under the SIDE A DIC D&O policy is within the limits of liability of 10 million dollars. As part of the policy, all officers in the company and its subsidiaries and holdings, including directors, are insured under identical conditions, past or present. None of the company's officers have control over it.

The purchase of the aforementioned D&O and SIDE A DIC insurance policies, as well as the company's engagement with its directors and officers regarding the terms of their insurance in accordance with the terms of the policy, are in accordance with the provisions of the company's compensation policy, and they meet the criteria established at the company's general meeting from August 2021.

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

Analysis of financial position as of September 30, 2023

Balances of liquid assets and financial indices (NIS in thousands)

	As of 30.09.2023	As of 31.12.2022	Change
Cash and cash equivalents	468,291	839,313	(371,022)
Short-term credit	(557,113)	(521,287)	(35,826)
Long-term credit	(498,840)	(699,873)	201,033
"Net" debt – short-term and long-term credit, net of cash and cash equivalents	(587,662)	(381,847)	(205,815)
Total balance sheet	3,928,894	4,002,776	(73,882)
Rate of "net" debt to balance sheet	15%	9.5%	
Current ratio (including liabilities in respect of lease)	1.15	1.21	
Balance of retained earnings	610,149	561,777	48,372
Total equity	1,068,577	964,875	103,702
Rate of equity to balance sheet	27.2%	24.1%	

Condensed consolidated statements of financial position (NIS in thousands)

	As of 30.09.2023	As of 31.12.2022	Change
Cash and cash equivalents	468,291	839,313	(371,022)
Trade receivable and unbilled receivables, net	1,682,490	1,481,761	200,729
Inventories	135,933	118,326	17,607
All other current assets	164,623	140,091	24,532
Total current assets	2,451,337	2,579,491	(128,154)
Goodwill	942,963	898,516	44,447
Intangible assets	89,195	99,256	(10,061)
All other non-current assets	445,399	425,513	19,886
Total non-current assets	1,477,557	1,423,285	54,272
Total assets	3,928,894	4,002,776	(73,882)
Short-term bank credit and other service providers	556,157	521,287	34,870
Trade payables	650,477	620,609	29,868
Employees	410,117	407,309	2,808
Deferred income	295,821	286,172	9,649
All other current liabilities	218,599	290,425	(71,826)
Total current liabilities	2,131,171	2,125,802	5,369
Liabilities to banking corporations and other service providers	498,840	699,873	(201,033)
Deferred income	16,704	30,860	(14,156)
All other non-current liabilities	213,602	181,366	32,236
Total non-current liabilities	729,146	912,099	(182,953)
Capital attributable to Shareholders of the Company	1,013,462	916,409	97,053
Non-controlling interests	55,115	48,466	6,649
Total equity	1,068,577	964,875	103,702
Total	3,928,894	4,002,776	(73,882)

The decrease in total current assets is mainly due to a decrease in the section of cash and cash equivalents (which were mainly used for the net repayment of bank loans and bonds, distribution of dividends and the purchase of the Zebra company), which was partially offset by an increase in the customers item and the inventory item, in light of the increase in the scope of activity and the consolidation of the Zebra company for the first time .

The decrease in total liabilities (current and non-current) results from a decrease in credit items from financial institutions and other credit providers in light of the reduction of the Company's financial debt in the period, and a decrease in liabilities for the PUT option for non-controlling interests(NCI) , in light of the partial exercise of the option in a number of subsidiaries (and an increase in the holding rates in accordance). The aforementioned decrease was partially offset by an increase in the liabilities to suppliers section - mainly due to the consolidation for the first time of Zebra and an increase in the liability in respect of the lease.

Condensed Statements of cash flow (NIS in thousands)

	For the period of three months ended	For the period of nine months ended	For the period of nine months ended
	30.09.2023	30.09.2023	30.09.2022
Net cash provided by operating activities:			
Net income	56,765	184,934	301,236
Adjustments to the profit and loss items	71,615	256,515	72,645
Changes in asset and liability items	12,328	(161,596)	(201,040)
Cash paid and received for interest and taxes	(23,508)	(116,565)	(69,492)
Net cash provided by (used in) operating activities	117,200	163,288	103,349
Net cash provided by investing activities:			
Purchase of property, plant and equipment	(7,527)	(32,602)	(30,352)
Realization of Subsidiary, which left consolidation, net of tax	-	-	115,341
Acquisition of companies and activities first time consolidated	-	(38,034)	(41,005)
Others (net)	533	1,878	496
Net cash provided by (used in) investing activities	(6,994)	(68,758)	44,480
Net cash used in financing activities			
Receipt (repayment) of credit, net	(11,460)	(155,219)	(68,305)
Dividends paid	(43,830)	(126,409)	(249,683)
Repayment of liabilities in respect of business combinations	(569)	(12,472)	(3,132)
Repayment of capital lease obligation	(35,702)	(101,689)	(75,951)
Dividend paid to non-controlling interests	(11,367)	(25,295)	(38,784)
Repayment of liabilities in respect of Put options	(18,573)	(29,352)	(3,359)
(Repayment) receipt of liabilities in respect of Debentures	(33,959)	(33,959)	293,091
Net cash used in financing activities	(155,460)	(484,395)	(146,123)

Cash flows provided by operating activities

In the third quarter, the company recorded a positive cash flow from current operations in the amount of approximately 117.2 million NIS, compared to a flow from current operations in the amount of approximately 82 million NIS in the corresponding quarter last year.

During the accumulated period, the company recorded a positive cash flow from current operations amounting to approximately 163.3 million NIS, compared to a positive cash flow from current operations amounting to approximately 103.3 million NIS in the corresponding period last year.

Cash flows used in investment activities

Cash flow used in investment activity in the third quarter and in the cumulative period amounted to approximately NIS 7 million and approximately NIS 68.8 million, respectively. This is compared to cash flow resulting from investment activity in total of about NIS 8.5 million and about NIS 44.5 million in the corresponding periods in previous years.

The main amount of the difference is attributed to a total of approximately NIS 115.3 million received in the second quarter of 2022 (the corresponding quarter), for the sale of an investment in Infinity (net of the payment of the tax thereon)

Cash flows used in financing activities

The cash flows used for financing operations in the quarter and accumulated period amounted to approximately NIS 155.5 million and approximately 484.4 million, compared to approximately NIS 72.7 million and 146.1 million in the corresponding periods last year. The main difference is attributed to the increase in net repayment of short-term credit shekels, debenture payments , with the decrease of the financial debt of the Company(see also explanations of the Balance Sheet)

Average short-term credit (NIS in thousands)

	As of 30.09.2023	As of 30.09.2022
Trade receivables	1,574,534	1,407,004
Trade payables	585,073	505,801

The company finances its current activities (including the gap between the average credit to customers and the average credit to suppliers) from the cash flow from current operations, receiving credit, from the equity and current liabilities that have not yet been paid.

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

As of September 30, 2023 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 period of nine months ended 30.09.2023	For the period of nine months ended 30.09.2022
Opening balance	964,875	878,054
Net income	184,934	301,236
Dividend paid	(126,409)	(249,683)
Share based payments	11,618	547
Translation adjustments	29,569	34,534
Other – net	3,990	(19,556)
Closing balance	1,068,577	945,132

2. The disclosure instructions in connection with the corporation's financial reporting

2.1. Goodwill

The remaining goodwill as included in the Company's financial statements is material to the company's total assets. The goodwill represents the excess of the investment cost over the balance sheet value in subsidiaries that were acquired by the group.

In accordance with General accepted accounting rules, the company examines the need for impairment every year. Beyond the annual review of the need for impairment, the company also examines during the year whether there are indications of impairment.

2.2. Significant events after the reporting period

See Note 6 in the Financial Statements.

November 9, 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 September 30, 2023:	441,656
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 September 30, 2023 (amortized cost according to the effective interest method):	439,581
Interest accrued at September 30, 2023:	3,184
Stock exchange value at September 30, 2023:	430,659
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.

Disclosure item	Details regarding the Series B debentures ⁽²⁾
Guarantee to pay the Company's liabilities according to the Trust Deed:	None
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 28.03.2023 (Ref. 2023-01-033000)

⁽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 September 30, 2023, as follows:

Security	Balance of nominal value of the security in circulation as of 30.09.2023	Balance of nominal value of the security in circulation immediately prior to the date of the Report	Financial covenant	Actual covenant as of 30.09.2023
Series B debenture	441, 656	441, 656	Ratio of consolidated net financial debt (as defined in the Trust Deed) to total balance sheet must not exceed 45%	15.0%
Series B debenture	441, 656	441, 656	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	1.0
Series B debenture	441, 656	441, 656	Shareholders' equity (as defined in the Trust Deed) is minimal, must be not less than NIS 275,000 thousand	1,068,577

CHAPTER B



Condensed Consolidated Interim Financial Statements 1 January-30 September 2023 (unaudited)

The information contained in these financial statements published by the Company constitutes a translation of the financial statements published by the Company. 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. This translation was prepared for convenience purposes only.

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Report on Review of Interim Financial Statements

To the Shareholders of

MATRIX IT LTD.

Introduction

We have reviewed the accompanying financial information of Matrix I.T. Ltd and subsidiaries ("the Group"), which comprise the condensed consolidated statement of financial position as of September 30, 2023 and the related condensed consolidated statement of profit or loss, comprehensive income, changes in equity and cash flows for the nine and three-month period then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for these interim periods in accordance with IAS 34, "Interim Financial Reporting" and are responsible for the preparation of this interim financial information in accordance with Chapter D to the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain subsidiaries, whose assets included in consolidation constitute approximately 8.74% of total consolidated assets as of September 30, 2023 and whose revenues included in consolidation constitute approximately 10.18% and 10.13% of total consolidated revenues for the nine and three-month period then ended, respectively. The condensed interim financial information of those companies was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of those companies, is based on the review reports of the other auditors.

Scope of Review

We conducted our review in accordance with Review Standard (Israel) 2410 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to the abovementioned, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Chapter D to the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel Aviv, Israel
November 9, 2023

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

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In thousand NIS)

	30, September		31, December
	2023	2022	2022
	Unaudited		Audited
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	468,291	551,067	839,313
Trade receivables	1,682,490	1,466,578	1,481,761
Income tax receivable	44,653	21,669	27,341
Other accounts receivable	119,970	141,705	112,750
Inventories	135,933	125,052	118,326
	2,451,337	2,306,071	2,579,491
NON-CURRENT ASSETS:			
Investments and other loans	16,800	16,800	16,800
Long term prepaid expenses	33,893	45,965	39,287
Rights-of-use assets, net	202,698	159,544	180,344
Property, plant and equipment, net	100,162	98,742	98,165
Goodwill	942,963	899,880	898,516
Intangible assets, net	89,195	104,718	99,256
Deferred taxes	91,846	89,285	90,917
	1,477,557	1,414,934	1,423,285
	3,928,894	3,721,005	4,002,776

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

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In thousand NIS)

	30, September		31, December
	2023	2022	2022
	Unaudited		Audited
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	473,009	513,304	471,454
Current maturities of debenture	83,148	21,174	49,833
Current maturities of liabilities from leases from right-of-use assets	110,110	93,393	105,853
Trade payables	650,477	519,668	620,609
Income taxes payable	12,534	20,010	18,379
Other accounts payable	45,358	56,830	66,306
Employees and payroll accruals	410,117	371,618	407,309
Liabilities in respect of business combinations	2,888	2,506	6,774
Put options of non-controlling interests	47,709	88,219	93,113
Deferred revenues	295,821	268,343	286,172
	2,131,171	1,955,065	2,125,802
NON-CURRENT LIABILITIES:			
Loans from banks and others	142,407	331,934	274,525
Debenture	356,433	272,016	425,348
Deferred revenues	16,704	40,341	30,860
Put options of non-controlling interests	31,968	7,082	7,432
Liabilities from leases from right-of-use assets	94,874	68,268	75,755
Deferred taxes	74,805	68,942	72,531
Liabilities in respect of business combinations	3,771	21,959	17,378
Employee benefit liabilities, net	8,184	10,266	8,270
	729,146	820,808	912,099
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Share capital and capital reserves	403,313	356,016	354,632
Retained earnings	610,149	544,441	561,777
	1,013,462	900,457	916,409
Non-controlling interests	55,115	44,675	48,466
TOTAL EQUITY	1,068,577	945,132	964,875
	3,928,894	3,721,005	4,002,776

November 9, 2023

Date of approval of
the financial
statementsGuy Bernstein
Chairman of the BoardMoti Gutman
Chief Executive OfficerNevo Brenner
Chief Financial Officer

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

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In thousand NIS)

	Nine months ended 30.09.23	Nine months ended (*) 30.09.22	Three months ended 30.09.23	Three months ended (*) 30.09.22	Year ended 31.12.22
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS in thousands (except per share data)				
Sales turnover	3,911,415	*3,453,904	1,333,520	*1,130,247	4,672,689
Cost of sales and services	3,350,651	*2,965,114	1,146,416	*968,844	4,000,682
Gross profit	560,764	488,790	187,104	161,403	672,007
Selling and marketing expenses	138,423	120,350	47,986	41,045	166,246
General and administrative expenses	129,934	112,004	45,839	40,218	155,273
Operating profit before gain from realization of investment	292,407	256,436	93,279	80,140	350,488
Gain from realization of investment	-	150,059	-	-	150,059
Operating profit after realization of investment	292,407	406,495	93,279	80,140	500,547
Financing expenses	62,189	22,333	19,701	11,148	50,801
Financing income	12,864	406	2,694	273	5,020
Profit before deduction of taxes on income	243,082	384,568	76,272	69,265	454,766
Taxes on income	58,148	83,332	19,507	18,828	100,285
Net income	184,934	301,236	56,765	50,437	354,481
Other comprehensive income (net of tax effect):					
<u>Amounts that will not be reclassified subsequently to profit or loss:</u>					
Actuarial gain (loss) from defined benefit plans	3,985	7,129	1,516	1,887	8,923
<u>Amounts that will be, or, that have been reclassified to profit or loss, when specific conditions are met:</u>					
Foreign currency translation adjustments of operations abroad	30,213	35,215	12,535	1,008	35,842

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In thousand NIS)

	Nine months ended 30.09.23	Nine months ended (*) 30.09.22	Three months ended 30.09.23	Three months ended (*) 30.09.22	Year ended 31.12.22
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS in thousands (except per share data)				
Change in Fair Value of hedge instrument for cash hedging	(644)	(681)	200	(681)	(375)
Net comprehensive income	218,488	342,899	71,016	52,651	398,871
Net income attributable to:					
Shareholders of the Company	170,796	284,535	51,439	46,507	334,669
Non-controlling interests	14,138	16,701	5,326	3,930	19,812
Net income	184,934	301,236	56,765	50,437	354,481
Net comprehensive income attributable to:					
Shareholders of the Company	204,091	326,015	65,464	48,680	379,261
Non-controlling interests	14,397	16,884	5,552	3,971	19,610
Net comprehensive income	218,488	342,899	71,016	52,651	398,871
Net earnings per share attributable to equity holders of the Company (in NIS):					
Basic net income	2.69	4.53	0.81	0.74	5.32
Diluted net income	2.69	4.51	0.81	0.74	5.30

(*) Reclassified - (See Note 2. (I). 8 in the annual Financial Report)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY- (Unaudited in thousands NIS)

	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 Attributed to the Company's shareholders	Non- controlling interests	Total equity
	NIS in thousands									
Balance as of January 1, 2023 (Audited)	68,002	305,894	(7,982)	561,777	(19,587)	10,186	(1,881)	916,409	48,466	964,875
Net income	-	-	-	170,796	-	-	-	170,796	14,138	184,934
Foreign currency translation reserve from operations abroad and Forex Hedging	-	-	-	-	29,310	-	-	29,310	259	29,569
Actuarial gain from defined benefit plans	-	-	-	3,985	-	-	-	3,985	-	3,985
Total other comprehensive gain (loss)	-	-	-	3,985	29,310	-	-	33,295	259	33,554
Total comprehensive income	-	-	-	174,781	29,310	-	-	204,091	14,397	218,488
Exercise of employee phantom options	253	3,553	-	-	-	-	(3,806)	-	-	-
Transaction with non-controlling interests	-	-	-	-	-	-	7,753	7,753	1,817	9,570
Dividend declared	-	-	-	(126,409)	-	-	-	(126,409)	-	(126,409)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	(9,565)	(9,565)
Share-based payment	-	-	-	-	-	-	11,618	11,618	-	11,618
Balance as of September 30, 2023	68,255	309,447	(7,982)	610,149	9,723	10,186	13,684	1,013,462	55,115	1,068,577

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY- (Unaudited in thousands NIS)

	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 Attributed to the Company's shareholders	Non- controlling interests	Total equity
	NIS in thousands									
Balance as of January 1, 2022 (Audited)	67,703	301,445	(7,982)	502,460	(55,256)	10,186	6,456	825,012	53,042	878,054
Net income	-	-	-	284,535	-	-	-	284,535	16,701	301,236
Foreign currency translation reserve from operations abroad	-	-	-	-	34,351	-	-	34,351	183	34,534
Actuarial gain from defined benefit plans	-	-	-	7,129	-	-	-	7,129	-	7,129
Total other comprehensive gain (loss)	-	-	-	7,129	34,351	-	-	41,480	183	41,663
Total comprehensive income	-	-	-	291,664	34,351	-	-	326,015	16,884	342,899
Exercise of employee phantom options	299	4,449	-	-	-	-	(4,748)	-	-	-
Disposal of non-controlling interests	-	-	-	-	-	-	-	-	(2,713)	(2,713)
Transaction with non-controlling interests	-	-	-	-	-	-	(1,434)	(1,434)	-	(1,434)
Dividend paid	-	-	-	(249,683)	-	-	-	(249,683)	-	(249,683)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	(22,538)	(22,538)
Share-based payment	-	-	-	-	-	-	547	547	-	547
Balance as of September 30, 2022	68,002	305,894	(7,982)	544,441	(20,905)	10,186	821	900,457	44,675	945,132

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY- (Unaudited in thousands NIS)

	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 Attributed to the Company's shareholders	Non- controlling interests	Total equity
	NIS in thousands									
Balance as of July 1, 2023	68,255	309,447	(7,982)	601,024	(2,786)	10,186	9,250	987,394	51, 624	1,039,018
Net income	-	-	-	51,439	-	-	-	51,439	5,326	56,765
Foreign currency translation reserve from operations abroad and Forex Hedging	-	-	-	-	12,509	-	-	12,509	226	12,735
Actuarial gain from defined benefit plans	-	-	-	1,516	-	-	-	1,516	-	1,516
Total other comprehensive gain (loss)	-	-	-	1,516	12,509	-	-	14,025	226	14,251
Total comprehensive income	-	-	-	52,955	12,509	-	-	65,464	5,552	71,016
Dividend paid	-	-	-	(43,830)	-	-	-	(43,830)	-	(43,830)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	(2,061)	(2,061)
Share-based payment	-	-	-	-	-	-	4,434	4,434	-	4,434
Balance as of September 30, 2023	68,255	309,447	(7,982)	610,149	9,723	10,186	13,684	1,013,462	55, 115	1,068,577

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY- (Unaudited in thousand NIS)

	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 Attributed to the Company's shareholders	Non- controlling interests	Total equity
	NIS in thousands									
Balance as of July 1, 2022	68,002	305,894	(7,982)	660,201	(21,191)	10,186	455	1,015,565	45,580	1,061,145
Net income	-	-	-	46,507	-	-	-	46,507	3,930	50,437
Foreign currency translation reserve from operations abroad and Forex Hedging	-	-	-	-	286	-	-	286	41	327
Actuarial gain from defined benefit plans	-	-	-	1,887	-	-	-	1,887	-	1,887
Total other comprehensive gain (loss)	-	-	-	1,887	286	-	-	2,173	41	2,214
Total comprehensive income	-	-	-	48,394	286	-	-	48,680	3,971	52,651
Dividend paid	-	-	-	(164,154)	-	-	-	(164,154)	-	(164,154)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	(4,876)	(4,876)
Share-based payment	-	-	-	-	-	-	366	366	-	366
Balance as of September 30, 2022	68,002	305,894	(7,982)	544,441	(20,905)	10,186	821	900,457	44,675	945,132

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY- (Audited in thousand NIS)

	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 Attributed to the Company's shareholders	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 interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended, September 30, 2023 Unaudited	Nine months ended, September 30, 2022 Unaudited	Three months ended, September 30, 2023 Unaudited	Three months ended, September 30, 2022 Unaudited	Year ended, December 31, 2022 Audited
NIS in thousands					
Cash flows from operating activities:					
Net income	184,934	301,236	56,765	50,437	354,481
Adjustments to reconcile net income to net cash provided by operating activities:					
Adjustments to the profit or loss items:					
Depreciation and amortization	149,611	119,138	52,152	47,629	162,225
Taxes on income	58,148	83,332	19,507	18,828	100,285
Change in employee benefit liabilities	4,960	338	1,603	(366)	671
Other financial expenses, net	25,472	12,984	(7,155)	10,786	(*)21,745
Revaluation of long-term loans from banks	(425)	37	(273)	95	(26)
Revaluation of liabilities in respect of business combinations	(347)	731	(854)	382	417
Capital (gain) from sale of property, plant and equipment	(827)	(291)	(493)	(861)	(197)
Share-based payment	11,618	1,010	4,434	320	1,330
Gain from realization of Subsidiary	-	(150,059)	-	-	(150,059)
Increase (decrease) in value of put options of non-controlling interests	8,305	5,425	2,694	2,042	12,159
	256,515	72,645	71,615	78,855	148,550

(*) Reclassified

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended, September 30, 2023 Unaudited	Nine months ended, September 30, 2022 Unaudited	Three months ended, September 30, 2023 Unaudited	Three months ended, September 30, 2022 Unaudited	Year ended, December 31, 2022 Audited
	NIS in thousands				
Change in asset and liability items:					
Increase in trade receivables	(71,536)	(62,717)	(45,545)	(32,577)	(77,873)
Decrease (increase) in other accounts receivable and prepaid expenses	4,266	(43,459)	(3,928)	7,394	(7,898)
Decrease (increase) in inventories	(2,268)	(53,788)	3,892	535	(47,062)
Increase in trade payables	(53,492)	(33,211)	54,587	13,834	65,191
Increase in employee benefit liabilities, deferred revenues and other accounts payable	(38,566)	(7,865)	3,322	(10,061)	53,083
	(161,596)	(201,040)	12,328	(20,875)	(14,559)
Cash paid and received during the year for:					
Interest paid, net	(34,394)	(19,807)	1,327	(10,963)	(28,408)
Taxes paid	(87,637)	(67,960)	(25,118)	(15,406)	(91,991)
Taxes received	5,466	18,275	283	-	19,318
	(116,565)	(69,492)	(23,508)	(26,369)	(101,081)
Net cash provided by (used to) operating activities	163,288	103,349	117,200	82,048	387,391

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended, September 30, 2023	Nine months ended, September 30, 2022	Three months ended, September 30, 2023	Three months ended, September 30, 2022	Year ended, December 31, 2022
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS in thousands				
Cash flows from investing activities:					
Proceeds from sale of property, plant and equipment	3,628	885	1,033	471	1,244
Purchase of property, plant and equipment	(32,602)	(30,352)	(7,527)	(8,957)	(38,757)
Proceeds from Disposal of Subsidiary	-	143,641	-	-	143,641
Software Research and Development costs	(1,750)	-	(500)	-	-
Tax payment of Disposal of Subsidiary	-	(28,300)	-	-	(28,300)
Acquisition of initially consolidated subsidiaries (a)	-	(389)	-	-	(389)
Payment of initially consolidated subsidiary (a)	(38,034)	(41,005)	-	-	(41,005)
Net cash provided by (used in) investing activities	(68,758)	44,480	(6,994)	(8,486)	36,434

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended, September 30, 2023 Unaudited	Nine months ended, September 30, 2022 Unaudited	Three months ended, September 30, 2023 Unaudited	Three months ended, September 30, 2022 Unaudited	Year ended, December 31, 2022 Audited
NIS in thousands					
Cash flows from financing activities:					
Change in short-term credit from banks and other credit providers, net	16,398	19,400	39,028	(180,263)	(24,441)
Receipts of long-term loans from banks and others	-	90,000	-	90,000	90,000
Repayment of long-term loans from banks and others	(171,617)	(177,705)	(50,488)	(61,011)	(233,159)
Dividend paid	(126,409)	(249,683)	(43,830)	(164,154)	(284,275)
Repayment of liabilities in respect of business combinations	(12,472)	(3,132)	(569)	(1,615)	(3,132)
Repayment of capital lease obligation	(101,689)	(75,951)	(35,702)	(31,189)	(107,135)
Dividend paid to non-controlling interests	(25,295)	(38,784)	(11,367)	(17,591)	(45,368)
Repayment of liabilities in respect of NCI Options	(29,352)	(3,359)	(18,573)	-	(3,359)
Proceeds from issuance of debenture	-	293,091	-	293,091	471,476
Repayment of debenture obligation	(33,959)	-	(33,959)	-	-
Net cash provided by (used in) financing activities	(484,395)	(146,123)	(155,460)	(72,732)	(139,393)
Exchange rate differences on balances of cash and cash equivalents	18,843	15,229	5,372	(1,582)	20,749
Increase (Decrease) in cash and cash equivalents	(371,022)	16,935	(39,882)	(752)	305,181
Cash and cash equivalents at the beginning of the year	839,313	534,132	508,173	551,819	534,132
Cash and cash equivalents at the end of the year	468,291	551,067	468,291	551,067	839,313

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30, 2023 Unaudited	Nine months ended September 30, 2022 Unaudited	Three months ended September 30, 2023 Unaudited	Three months ended September 30, 2022 Unaudited	Year ended December 31, 2022 Audited
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)	(36,212)	(1,831)	-	-	(1,831)
Property, plant and equipment	(287)	(2,315)	-	-	(2,315)
Long term Deposits	-	(2)	-	-	(2)
Inventories	(15,339)	(8,694)	-	-	(8,694)
Deferred taxes	(350)	(2,363)	-	-	(2,363)
Goodwill	(28,694)	(36,322)	-	-	(36,322)
Intangible assets	(11,194)	(12,007)	-	-	(12,007)
Employee benefit liabilities	129	216	-	-	216
Deferred taxes	2,575	2,761	-	-	2,761
Liability of put options to non-controlling interests	26,257	-	-	-	-
Short term bank liabilities	25,081	4,801	-	-	4,801
Liability in respect of business combinations	-	14,751	-	-	14,751
	(38,034)	(41,005)	-	-	(41,005)
(b) Significant non-cash transactions:					
Declared dividend but not paid	-	2,239	-	2,239	-
Right-of-use asset recognized with corresponding lease liability	123,946	94,264	23,268	78,861	143,762

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30, 2023	Nine months ended September 30, 2022	Three months ended September 30, 2023	Three months ended September 30, 2022	Year ended December 31, 2022
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
NIS in thousands					
(c) <u>Disposal of consolidated subsidiary:</u>					
The subsidiaries' assets and liabilities at date of disposal:					
Working capital (excluding cash and cash equivalents)	-	(24,707)	-	-	(24,707)
Investment in Securities	-	16,745	-	-	16,745
Property, plant and equipment	-	2,615	-	-	2,615
Deferred taxes	-	223	-	-	223
Goodwill	-	1,470	-	-	1,470
Employee benefit liabilities	-	(51)	-	-	(51)
Non-controlling interests	-	(2,713)	-	-	(2,713)
Gain on disposal of Subsidiary	-	150,059	-	-	150,059
	-	143,641	-	-	143,641

The accompanying notes are an integral part of the interim 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.
- b. These financial statements were prepared in a condensed format for September 30, 2023 and for the nine and three month periods that ended on that date (hereinafter - Consolidated interim financial statements). The summary of the Consolidated financial statements of the group as of September 30, 2023, include those of the company and its subsidiaries (hereinafter - the group), as well as the company's rights in affiliated companies and joint arrangements. These reports should be reviewed in connection with the Company's annual financial statements for December 31, 2022 and for the year ended on that date and the accompanying notes (hereinafter - the Consolidated annual financial statements).
- c. 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.
- d. The Company's shares are traded in the Tel Aviv Stock Exchange.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES**a. Basis of preparation of the interim consolidated financial statements:**

The interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies applied in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements.

b. Below are data on changes in the indices and the relevant exchange rates:

	As of 30.09.23	As of 30.09.22	As of 31.12.22
Consumer Price Index-CPI (Basis 2022)			
In Israel (Prevailing Index)	104.9	101	102.0
In Israel (Known Index)	105.0	100.8	101.7
Exchange rate against NIS			
Dollar	3.824	3.54	3.52
Euro	4.053	3.48	3.75

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

- b. Below are data on changes in the indices and the relevant exchange rates (CONT.) :

	Period ended 30.09.23 %	Period ended 30.09.22 %	Year ended 31.12.22 %
Consumer Price Index-CPI (Basis 2022)			
In Israel (Prevailing Index)	2.86%	4.29%	5.26%
In Israel (Known Index)	3.25%	4.14%	5.28%
Exchange rate against NIS			
Dollar	8.67%	13.92%	13.15%
Euro	8.00%	-0.97%	6.62%

- c. **Initial application of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards:**

1. Amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors":

In February 2021, the IASB issued an amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors" ("the Amendment"), in which it introduces a new definition of "accounting estimates".

Accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The Amendment clarifies the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

The Amendment is to be applied prospectively for annual reporting periods beginning on or after January 1, 2023 and is applicable to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period.

The application of the Amendment did not have a material impact on the Company's interim financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)**2. Amendment to IAS 12, "Income Taxes":**

In May 2021, the IASB issued an amendment to IAS 12, "Income Taxes" ("IAS 12"), which narrows the scope of the initial recognition exception under IAS 12.15 and IAS 12.24 ("the Amendment").

According to the recognition guidelines of deferred tax assets and liabilities, IAS 12 excludes recognition of deferred tax assets and liabilities in respect of certain temporary differences arising from the initial recognition of certain transactions. This exception is referred to as the "initial recognition exception". The Amendment narrows the scope of the initial recognition exception and clarifies that it does not apply to the recognition of deferred tax assets and liabilities arising from transactions that are not a business combination and that give rise to equal taxable and deductible temporary differences, even if they meet the other criteria of the initial recognition exception.

The Amendment is effective for annual reporting periods beginning on or after January 1, 2023. In relation to leases and decommissioning obligations, the Amendment is applied commencing from the earliest reporting period presented in the financial statements in which the Amendment is initially applied. The cumulative effect of the initial application of the Amendment is recognized as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at that date.

The application of the Amendment did not have a material impact on the Company's interim financial statements.

3. Amendment to IAS 12, "Income Taxes":

In May 2023, the IASB published an amendment to International Accounting Standard 12, Taxes on Income (hereinafter: the "amendment"), following the international tax reform of the OECD - BEPS Pillar Two (hereinafter: Pillar 2" or the "international tax reform").

The amendment includes:

- (a) Mandatory temporary exemption from the application of the provisions of the standard for the recognition and disclosure of deferred tax assets and liabilities resulting from the adoption of the Pillar 2 rules (hereinafter: "temporary exemption"); also
- (b) Targeted Disclosure Requirements for Multinational Entities Affected by International Tax Reform.

The temporary exemption stated in section (a) above applies immediately and it is required to give a disclosure about its application. The other targeted disclosure requirements, mentioned in section (b) above, apply to annual reporting periods beginning on January 1, 2023.

The company is examining the consequences of the above amendment on its financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

d. Disclosure to new IFRS standards in the period before their implementation:**1. Amendments to International Accounting Standard 7, Statement of Cash Flows, and International Financial Reporting Standard 7, Financial Instruments: Disclosures**

In May 2023, the IASB published amendments to International Accounting Standard 7, Statement of Cash Flows, and International Financial Reporting Standard 7, Financial Instruments: Disclosures (hereinafter: "the amendments"), to clarify the characteristics of supplier financing arrangements and to require additional disclosure for these arrangements.

The disclosure requirements in the amendments are intended to assist and enable users of the financial statements to assess the effects of vendor financing arrangements on the entity's obligations as well as on the entity's cash flows and exposure to liquidity risk.

The amendments will be applied to annual reporting periods beginning on or after January 1, 2024. Early adoption is possible subject to disclosure.

The company is examining the consequences of the above amendments on its financial statements.

2. Amendments to International Accounting Standard 21, Effects of Changes in Foreign Currency Exchange Rates

In August 2023, the IASB published an amendment to International Accounting Standard 21, Effects of Changes in Foreign Currency Exchange Rates (hereinafter: the "amendment"), to clarify how an entity assesses whether a currency is convertible into another currency and what accounting requirements (measurement and disclosure) an entity is required to apply in cases where a currency cannot be exchanged for another currency.

The amendment determines the manner of determining the immediate exchange rate in the absence of exchange capacity. The disclosure requirements required following this amendment are intended to help and enable users of the Financial statements to understand how the currency that cannot be exchanged for the other currency affects, or is expected to affect, the Entity's financial performance, financial position and cash flow. The amendment will be applied to annual reporting periods beginning on or after January 1, 2025. Early application is possible subject to disclosure. In implementing the amendment, an entity will not re-present comparative information. Alternatively, if the currency is not exchangeable at the beginning of the annual period in which the amendment is applied for the first time (the date of first application), an entity will translate assets, liabilities and capital, following the provisions of the amendment, and the differences as of the date of first application will be recognized as an adjustment to the opening balance of the surplus and/or the fund from translation differences, in accordance for the repair instructions. The company is examining the consequences of the amendment on its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: -BUSINESS COMBINATIONS

On January 1, 2023, the Company completed the purchase of 70% of the Share Capital of Zebra Technologies Ltd. (hereinafter "Zebra") for NIS 53 million (including equity). Zebra is engaged in the distribution and marketing of solutions and software products in the areas of data communication, Information security and Cyber protection. Pursuant to the purchase agreement, the Company and the seller have a mutual option to sell and purchase the remainder of the seller's shares to the company. As of the date of the report, the valuation underlying the attribution of the consideration to the assets and liabilities has not yet been completed and accordingly, this attribution is temporary, according to the management's assessment, and will continue in the following periods after the completion of the valuation. According to the temporary attribution, the excess purchase cost of 37.3 million NIS was attributed by the Company to intangible assets of 11.2 million and the balance was attributed to goodwill.

NOTE 4: - 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 the US.
- Training and implementation.
- Cloud infrastructure and computer solutions.
- Software product marketing and support.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: - OPERATING SEGMENTS (CONT.)

Information Technologies (IT) Software solutions and services in US.

The activity in this area, is carried out through two arms - Matrix US Holding and Xtivia, each of which owns several 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 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 - Data Zone 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: - OPERATING SEGMENTS (CONT.)

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.

c. Reporting on operating segments:

Nine months ended September 30, 2023 Unaudited (In thousand NIS)							
	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	2,136,225	139,372	203,766	1,076,027	356,025	-	3,911,415
Inter-segment revenues	63,240	3,996	20,697	42,251	1,198	(131,382)	-
Revenues	<u>2,199,465</u>	<u>143,368</u>	<u>224,463</u>	<u>1,118,278</u>	<u>357,223</u>	<u>(131,382)</u>	<u>3,911,415</u>
Segment operating results	<u>147,284</u>	<u>14,143</u>	<u>21,032</u>	<u>64,585</u>	<u>52,968</u>	<u>(7,605)</u>	<u>292,407</u>
Financial expenses							(62,189)
Financial income							12,864
Taxes on income							(58,148)
Net income							<u>184,934</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: - OPERATING SEGMENTS (CONT.)

Nine months ended September 30, 2022 Unaudited (In thousand NIS)							
	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	1,855,208	156,173	172,411	*958,346	311,766	--	*3,453,904
Inter-segment revenues	51,626	3,011	11,752	39,431	576	(106,396)	-
Revenues	<u>1,906,834</u>	<u>159,184</u>	<u>184,163</u>	<u>*997,777</u>	<u>312,342</u>	<u>(106,396)</u>	<u>*3,453,904</u>
Segment operating results	<u>142,243</u>	<u>15,114</u>	<u>11,763</u>	<u>55,483</u>	<u>43,041</u>	<u>(11,208)</u>	<u>256,436</u>
Gain from realization of Subsidiary							150,059
Financial expenses							(22,333)
Financial income							406
Taxes on income							(83,332)
Net income							<u>301,236</u>

*Reclassified - (See Note 2. (I). 8 in the annual Financial Report)

c. Reporting on operating segments:

Three months ended September 30, 2023 Unaudited (In thousand NIS)							
	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	714,218	42,888	73,875	377,298	125,241	-	1,333,520
Inter-segment revenues	21,282	1,150	5,902	9,729	1,038	(39,101)	-
Revenues	<u>735,500</u>	<u>44,038</u>	<u>79,777</u>	<u>387,027</u>	<u>126,279</u>	<u>(39,101)</u>	<u>1,333,520</u>
Segment operating results	<u>43,868</u>	<u>2,017</u>	<u>8,121</u>	<u>21,322</u>	<u>19,972</u>	<u>(2,021)</u>	<u>93,279</u>
Financial expenses							(19,701)
Financial income							2,694
Taxes on income							(19,507)
Net income							<u>56,765</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 4: - OPERATING SEGMENTS (CONT.)**

c. Reporting on operating segments (Cont.):

Three months ended September 30, 2022 Unaudited (In thousand NIS)							
	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	578,187	48,796	48,931	*328,668	125,665	-	*1,130,247
Inter-segment revenues	18,858	1,361	4,261	10,111	76	(34,667)	-
Revenues	<u>597,045</u>	<u>50,157</u>	<u>53,192</u>	<u>*338,779</u>	<u>125,741</u>	<u>(34,667)</u>	<u>*1,130,247</u>
Segment operating results	<u>43,128</u>	<u>3,542</u>	<u>2,546</u>	<u>18,747</u>	<u>19,179</u>	<u>(7,002)</u>	<u>80,140</u>
Financial expenses							(11,148)
Financial income							273
Taxes on income							(18,828)
Net income							<u>50,437</u>

*Reclassified (See Note 2. (I). 8 in the annual Financial Report)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: - OPERATING SEGMENTS (CONT.)

	Year ended December 31, 2022 Audited (In thousand NIS)						Adjustments	Total
	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			
	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)		350,488
Gain from realization of Subsidiary								150,059
Financial expenses								(50,801)
Financial income								5,020
Taxes on income								(100,285)
Net income								354,481

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: - Significant events during the reporting period

1. Following the announcement of the dividend from March 12, 2023, the Company distributed on April 16, 2023, a total dividend of 37.48 million shekels to its shareholders (which is 59 agorot for every 1 shekel of ordinary shares).
2. Following the announcement of the dividend from May 11, 2023, the Company distributed on June 5, 2023, a total dividend of 45.10 million shekels to its shareholders (which is 71 agorot for every 1 shekel of ordinary shares).
3. Following the announcement of the dividend from August 9, 2023, the Company distributed on September 3, 2023, a total dividend of 43.83 million shekels to its shareholders (which is 69 agorot for every 1 shekel of ordinary shares).
4. On March 12, 2023, the Company's board of directors, after receiving the approval of the Compensation committee, approved the allocation of 920,000 exercisable options for up to 920,000 ordinary shares of NIS 1 each without consideration, to 18 officers and senior employees of the Company or corporations under its control. The strike price of the options on the date of their grant is NIS 71.25. The strike price is subject to adjustments, including when distributing a dividend. Half of the number of options will mature on March 12, 2025, a quarter of the remaining options will mature on March 12, 2026, and the balance will mature on March 12, 2027. The lifetime of the options is 5 years from the date of grant. The fair value of the options is estimated on the day of grant according to the binomial model in the amount of NIS 22.38 per option, based on a risk-free interest rate of 3.34%-4.53%, an early exercise factor of 130% and an expected volatility of 31%.
5. On August 9, 2023, the company's board of directors, after the approval of the compensation committee, approved the allocation of 45,000 options ("the options"), exercisable for up to 45,000 ordinary shares of NIS 1.00 par value of the company ("the shares"), without cash consideration except in return for the work of an office holder in the company.
The exercise price of the options at the time of their grant is NIS 73.73. The exercise price is subject to adjustments, including when distributing a dividend. Half of the number of options will mature on August 10, 2025, a quarter of the remaining options will mature on August 10, 2026, and the balance will mature on August 10, 2027. The lifetime of the options is 5 years from the date of grant. The fair value of the options is estimated on the day of grant according to the binomial model in the amount of NIS 22.38 per option, based on a risk-free interest rate of 3.34%-4.53%, an early exercise factor of 130% and an expected volatility of 31%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: - Significant events after the reporting period

On October 7, 2023, after the date of the financial statements, Operation "Iron Swords" (hereinafter - the war) broke out in the State of Israel. The war, is carried out in communities and cities bordered with Gaza as well as in the south of the country.

The war has also extended into the north, and affects central Israel and the Israeli home front, throughout the country. In light of the war, hundreds of thousands of Israelis have been evacuated from their homes, and massive recruitment to the Israeli Defense Force of reserve personnel (estimated at 8% of the economy's labor force) was carried out, and will continue for an unknown period of time. In addition, the war has resulted in a series of consequences and restrictions, such as the closing of many businesses, and in particular the closing of factories in the south and north of the country; restrictions on gatherings; restrictions on studies in the education system; damage to infrastructure, and more. The war situation has led to a slowdown in business activity in the entire Israeli economy, leading to a sharp decline in Israel's financial markets. The rising trend in the exchange rates of the dollar and the euro against the shekel has also intensified. When the war broke out, the company continued to work, in a work-from-home format. After a short period, personnel returned to work in a "wartime routine", in a hybrid format. As at the date of this report, work is ongoing and the company continues to provide services and products to its customers as usual. As for the company's assessment, the company is financially robust, which is reflected, among other things, in a large balance of liquid assets (cash and unused credit facilities), business diversification in a wide range of business activities, and adequate leverage and coverage ratio.

The Company estimates that its financial strength, together with its cash balance, its unused credit facilities and cash flow from operation, will enable it to continue to finance its business operations, while fully complying with its obligations, should war continues for long term. Close to the publication date of this report, approximately 700 of the company's employees had been drafted to the reserve duties. This is expected to have a negative impact on the company's profitability in the immediate term, due, among other things to the State offering only partial compensation for reservist employees (and no compensation at all for loss of profit).

Also, the business segment of training and implementation has experienced reduced levels of activity during the war, due to the difficulty of running courses given the restrictions imposed by the Home Front Command, among other things. In the medium and long term, as long as the war continues and has a negative effect on the level of economic activity in the Israeli economy as a whole, or certain industries, and/or certain government offices and organizations (for example due to cutting of office budgets in order to increase the defense budget to finance the war), this may affect the financial resilience of some of the company's customers, and/or lead to a decrease in demand and a reduction in their procurement and IT budgets, which would affect the company's business activities with those customers and/or affect their payment morale. Since this is an event characterized by high uncertainty, and as of this date there is no available information regarding its duration and the intensity of its impact on the economy, particularly not in the medium and long term, the company does not have the ability to assess the full impact of the war its business and future financial results.