



MATRIX I.T. LTD

Interim Financial Statements

As of March 3, 2023

(Unaudited)

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

CHAPTER A

Report of the Board
of Directors
for the period ended
March 31, 2023



Table Of Contents

1.	Explanations of the Board of Directors for the business situation of the corporation	3
1.1.	Main data from the description of the corporation's business	3
1.1.1.	Description of activity segments	3
1.1.2.	The business environment	3
1.1.3.	Significant events during the reporting period	4
1.1.4.	Condensed statements of consolidated income for the period three months ended March 31, 2023 and March 31, 2022	5
1.2.	Analysis of results of activity	6
1.2.1.	Analysis of results of consolidated income	6
1.2.2.	Summary of consolidated profit and loss results by segments of activity for the period of three months ended March 31, 2023 and March 31, 2022	10
1.2.3.	Analysis of results of activity by segments of activity	13
1.2.4.	Commitments and special events	15
1.3.	Financial position, liquidity and sources of financing (NIS in thousands)	15
2.	The disclosure instructions in connection with the corporation's financial reporting	19
	Appendix A – Details with regard to notes issued by the Company and held by the public at the date of the Report	20

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; (2) Information technology solutions and services in the United States; (3) Sales, marketing and support of software products; (4) Cloud infrastructure and computing; and (5) Training and implementation - providing solutions, services and products, mainly to the following customer segments ("segments"): Banking and finance, High-tech and startups, Government and the public sector, Defense, Transportation, Health, Industry, Retail and trade, Education and academia. Within each of the segments there are dedicated departments that specialize in providing specific solutions to the specific customer segment in which they operate, as well as managing and executing projects for the Company's broad bodies.

The specialization in the various segments is reflected in the applied, professional and marketing aspects of that segment. Accordingly, in each segment, a professional and marketing infrastructure has been developed which is required to support that segment.

1.1.2. The business environment

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

An increase in inflation and interest rates - the possibility of an economic slowdown

In continuation of paragraph 1.1.2, that was included in the Periodic report for 2022- after the global trend of increasing price levels in Israel and around the world intensified during 2022 there was a certain moderation in inflationary pressures in the world in the first quarter of 2023, among other things due to the continued interest rate increases by the central banks. Accordingly, there was a decrease in inflation to a level of about 5% in the US and about 5% in Israel (in annual terms based on the last 12 months), as of the date of the report. As mentioned above, the increase in interest rates by the central banks continued, so that as of the date of the report, the interest rate in the USA is about 5% (in May 2023 it was raised again to a rate of about 5.25%), and in Israel it is about 4.25%. Continued increase in interest rates In Israel and around the world, by its very nature, may lead to a slowdown in economic activity in the countries in which the Company operates and its customers operate.

Despite the above, the Company's activity in the first quarter of 2023 was characterized by the continued increase in its operation volumes, revenues and profit. At the same time, the increase in interest rates in the economy led to an increase in the Company's financing expenses, which had a negative effect on the net profit. In the company's estimation, the effect of inflation on the results of its operations is not expected to be material, among other things, since the Company's financial debt is not linked to the index. On the other hand, the trend of rising interest rates may negatively affect the results of the Company's operations by increasing financing costs for variable interest loans (commercial securities - "Naam" - and short-term bank loans), as well as for new fixed interest loans that will replace loans that come due. It should also be noted in this context that the main component of the Company's expenses is wages (about 55% of the company's operating expenses), which in the Company's estimation is mainly influenced by trends in demand and supply of technological manpower, and inflation is expected to have a limited effect on it.

High-tech industry

As a Company that provides solutions, products and services in the area of Information technologies, the Company competes with other companies in the High-tech industry for quality personnel. In addition, a significant part of the Company's sales (15% in 2022) is due to companies in the high-tech area.

After a record year in the high-tech industry in 2021, 2022 and the beginning of 2023 marked a significant slowdown in the field of high-tech in Israel and around the world. This slowdown was reflected, inter alia, in a sharp decrease in the scope of capital-raising in the sector, the closure of start-up companies, and as a result, reductions in the workforce and layoffs. A large proportion of those who were laid off have been taken back to work in the industry, which still suffers from a shortage of technological manpower. According to the data of the CBS and the Innovation Authority, the number of vacancies in the high-tech field in the first quarter of 2023 decreased to approximately 12,000 (a decrease of more than 40% compared to the corresponding quarter in 2022).

In the Company's estimation, the trend of reducing manpower in hi-tech companies may make it easier for the company to recruit and retain employees, as well as to ease the pressures for salary increases on the part of the employees, which the company has experienced in recent years. On the other hand, the slowdown in the high-tech industry could lead to a decrease in demand and even damage to some of the Company's customers in this field of activity, and consequently to damage to the results of the company's activities.

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

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

1.1.3. Significant events during the reporting period

Acquisition of a subsidiary, 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 (RS). 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.

1.1.4. Condensed statements of consolidated income for the period three months ended March 31, 2023 and March 31, 2022 (NIS in thousands)

	For the period of 3 months ended 31.03.23	For the period of 3 months ended 31.03.22	Percentage change
Revenue turnover	1,291,153	1,157,985	11.5%
Cost of sales and services	1,102,535	990,189	11.3%
Gross profit	188,618	167,796	12.4%
% of sales	14.6%	14.5%	
Selling and marketing expenses	45,176	39,840	13.4%
General and administrative expenses	41,977	35,858	17.1%
Operating profit before gain on realization of investment	101,465	92,098	10.2%
% of sales	7.9%	8%	
Financial expenses (net)	16,891	6,976	142.1%
Income before deduction of taxes on income	84,574	85,122	(0.6%)
Taxes on income	19,228	17,137	12.2%
Net income	65,346	67,985	(3.9%)
% of sales	5.1%	5.9%	
Net income attributable to:			
Shareholders of the Company	60,740	59,144	2.7%
Non-controlling interests	4,606	8,841	(47.9%)
Net income	65,346	67,985	(3.9%)
% of sales	5.1%	5.9%	
EBITDA¹	148,763	127,534	16.6%
% of sales	11.5%	11%	

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

1.2. Analysis of results of activity

1.2.1. Analysis of results of consolidated income

- 1) **Sales** of the Company in the quarter amounted to NIS 1,291 million compared to NIS 1,158 million in the corresponding quarter last year, an increase of 11.5%. The increase in sales in the first quarter compared with the corresponding period last year is due to an increase in income in Information Technology Solutions and Services, Consulting and Management in Israel segment, in the Cloud and computing infrastructure segment and in the Information technology solutions and services in the United States segment, which was partly offset by a decrease in revenues in the Software products segment and the Training and implementation segment.

The aforementioned change in the scope of sales was also affected by the sale and termination of the consolidation of Infinity (which contributed approximately 3.4% of the Company's sales in the corresponding quarter last year), as well as the consolidation of the results of the activities of RDT (consolidated starting from the third quarter of 2022) and Zebra (consolidated for the first time in the first quarter of 2023). Neutralizing the aforementioned effects, in the first quarter the company recorded an organic growth in revenues of approximately 11.8%.

- 2) **Gross profit** in the quarter amounted to approximately NIS 188.6 million, which accounted for approximately 14.6% of sales, compared to about NIS 167.8 million in the corresponding quarter last year, which represented a similar proportion of sales, an increase of about 12.4%. The increase in total gross profit in the quarter is due to the increase in the Company's sales volume.
- 3) **Sales, marketing, management and general expenses** in the quarter amounted to approximately NIS 87.2 million, which accounted for approximately 6.7% of sales, compared to approximately NIS 75.7 million in the corresponding quarter last year, which accounted for approximately 6.5% of sales. The sales expenses include an amount of approximately NIS 6 million (compared to approximately NIS 4.8 million in the corresponding quarter last year) for amortization of customer relationship assets and backlog of orders, which resulted from business combinations. Also, management and general expenses include an amount of about 2.8 million NIS (compared to about 0.3 million NIS in the corresponding quarter last year) expenses for share based payments to office holders and senior managers (for more details see section 1.1.3 above).

4) Operating profit

The operating profit in the quarter amounted to approximately NIS 101.5 million, which constituted approximately 7.9% of sales, compared to approximately NIS 92.1 million in the corresponding quarter last year, which constituted approximately 8% of sales, an increase of approximately 10.2%.

The increase in the operating profit amount is due to an increase in profit in all the Company's activity sectors, compared to the corresponding quarter last year.

The change in the aforementioned operating profit was also affected by the sale and termination of the consolidation of Infinity (which contributed about 7% of the company's operating profit in the corresponding quarter), as well as the consolidation of the results of the activities of RDT (starting in the third quarter of 2022) and Zebra (starting in the first quarter of 2023). Neutralizing the aforementioned effects, in the first quarter the company registered an organic growth in the operating profit of approximately 12.2%.

5) Financial expenses / income (net)

Financial expenses (net) for the quarter totaled approximately NIS 16.9 million compared to financial expenses (net) totaling approximately NIS 7 million in the corresponding quarter last year.

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

	For the period of three months ended 31.03.23	For the period of three months ended 31.03.22	Change in NIS in thousands
Interest, commission and other (net)	11,974	5,909	6,065
Exchange rate differences – expenses (income)	(1,721)	(419)	(1,302)
Remeasurement of liabilities expenses in respect of option to minority and in respect of leases	6,638	1,486	5,152
Total financing expenses (net)	16,891	6,976	9,915

As detailed above, the main change in net financing expenses, in the quarter compared to the corresponding quarter 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, 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. The increase in interest expenses was partly offset by the recording of income for exchange rate differences, mainly as a result of the strengthening of the exchange rate of the dollar in relation to the shekel during the period.

6) Taxes on income

The tax expenses for the quarter amounted to about 19.2 million NIS, which constituted about 22.7% of the taxable profit, compared to about 17 million NIS in the corresponding quarter last year, which constituted about 20.1% of the taxable profit. The change in tax expenses and their proportion of the taxable profit are mainly attributed to changes in deferred taxes and taxes from previous years in the corresponding period.

7) Net profit

Net profit in the first quarter amounted to approximately NIS 65.3 million, which accounted for approximately 5.1% of sales, compared to about NIS 68 million, which accounted for about 5.9% of sales in the corresponding quarter last year, a decrease of about 3.9%.

The decrease in net profit is mainly due to an increase in financing expenses, in addition to the increase in operating profit in the quarter, compared to the corresponding quarter last year.

8) Net profit attributable to Shareholders` of the Company

Net profit attributable to the shareholders in the first quarter amounted to about 60.7 million NIS (about 4.7% of sales), compared to about 59.1 million NIS (about 5.1% of sales) in the corresponding quarter last year, an increase of about 2.7%.

9) Total comprehensive income (NIS in thousands)

	For the period of three months ended 31.03.23	For the period of three months ended 31.03.22
Net profit	65,346	67,985
Other comprehensive income (after the effect of tax):		
Amounts that will not be subsequently reclassified to profit or loss:		
Gain (loss) from remeasurement in respect of defined benefit plans	1,250	3,400
Amounts that will be classified or reclassified to profit or loss if specific conditions are met:		
Change in fair value of instruments used for cash flow hedging	(628)	-
Adjustments arising from the translation of financial statements	9,027	4,789
Total comprehensive income	74,995	76,174

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

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.

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

	For the period of three months ended 31.03.23	For the period of three months ended 31.03.22	Percentage change
Operating profit	101,465	92,098	10.2%.
Depreciation and amortization	47,298	35,436	33.5%
EBITDA	148,763	127,534	16.6%
% of total sales	11.52%	10.8%	
Canceling the effect of IFRS 16 ²	(32,850)	(20,990)	
EBITDA after canceling the effect of IFRS 16	115,913	106,544	8.79%
% of total sales	9.0%	9.2%	

11) Diluted net earnings per share attributable to the Company's shareholders (NIS in thousands)

	For the period of three months ended 31.03.23	For the period of three months ended 31.03.22
Diluted net earnings per share attributable to the Company's shareholders t	0.96	0,94

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

1.2.2. Summary of consolidated profit and loss results by segments of activity for the period of three months ended March 31, 2023 and March 31, 2022 (NIS in thousands)

	For the period of three months ended 31.03.23	For the period of three months ended 31.03.22	Percentage change
Revenues according to activity segment:			
Information technology solutions and services , consulting and management in Israel ⁽¹⁾	736,005	665,525	10.6%
Information technology solutions and services in the United States ⁽²⁾	107,870	94,892	13.7%
Sales, marketing and support of software products	62,480	71,058	(12.1%)
Cloud infrastructures and computing	375,184	316,633	18.5%
Training and implementation	51,115	53,977	(5.3%)
Adjustments between segments	(41,501)	(44,100)	
Total revenues	1,291,153	1,157,985	11.5%
Operating profit			
Information technology solutions and services , consulting and management in Israel ⁽¹⁾	54,230	54,124	0.2%
Information technology solutions and services in the United States ⁽²⁾	14,705	10,289	42.9%
Sales, marketing and support of software products	5,237	4,802	9.1%
Cloud infrastructures and computing	23,169	18,457	25.5%
Training and implementation	6,704	4,592	46.0%
Adjustments between segments	(2,580)	(166)	
Operating profit	101,465	92,098	10.2%

	For the period of three months ended 31.03.23 in percentages	For the period of three months ended 31.03.22 in percentages
Rate of operating profit:		
Information technology solutions and services , consulting and management in Israel ⁽¹⁾	7.4%	8.1%
Information technology solutions and services in the United States ⁽²⁾	13.7%	10.8%
Sales, marketing and support of software products	8.4%	6.8%
Cloud infrastructures and computing	6.2%	5.8%
Training and implementation	13.1%	8.5%
Rate of operating profit in %	7.9%	8.0%
Rate of revenue according to segment of activity:		
Information technology solutions and services , consulting and management in Israel ⁽¹⁾	55.2%	55.4%
Information technology solutions and services in the United States ⁽²⁾	8.1%	7.9%
Sales, marketing and support of software products	4.7%	5.9%
Cloud infrastructures and computing	28.2%	26.3%
Training and implementation	3.8%	4.5%
Total revenues in %	100%	100%
Rate of contribution to operating profit according to segments of activity:		
Information technology solutions and services , consulting and management in Israel ⁽¹⁾	52.1%	58.7%
Information technology solutions and services in the United States ⁽²⁾	14.1%	11.2%
Sales, marketing and support of software products	5.1%	5.2%
Cloud infrastructures and computing	22.3%	20%
Training and implementation	6.4%	5%
Total operating profit in %	100%	100%

⁽¹⁾ Including immaterial activity in Europe

⁽²⁾ Including activity in Canada

	For the period of three months ended 31.03.2023	For the period of three months ended 31.03.2022	
	NIS in thousands	NIS in thousands	Percentage change
Geographic information:			
Revenues:			
Revenues from customers in Israel	1,205,301	1,093,990	10.1%
Revenues from customers in the United States	107,870	94,892	13.7%
Revenues from customers in Europe	19,483	13,203	47.6%
Adjustments between segments	(41,501)	(44,100)	
Total revenues	1,291,153	1,157,985	11.5%
Operating profit			
Operating profit from customers in Israel	87,605	80,859	8.3%
Operating profit from customers in the United States	14,705	10,289	42.9%
Operating profit from customers in Europe	1,735	1,116	55.5%
Adjustments between segments	(2,580)	(166)	
Total operating profit	101,465	92,098	10.2%
		For the period of three months ended 31.03.23	For the period of three months ended 31.03.22
		Percentage	Percentage
Rate of revenues on a geographical basis:			
Revenues from customers in Israel		90.4%	91.0%
Revenues from customers in the United States		8.1%	7.9%
Revenues from customers in Europe		1.5%	1.1%
Total revenues in %		100%	100%
Rate of operating profit on a geographical basis:			
Rate of operating profit in Israel		7.3%	7.4%
Rate of operating profit in the United States		12.6%	10.8%
Rate of operating profit in Europe		8.9%	8.5%
Rate of operating profit in %		7.9%	8.0%

1.2.3. 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 736 million, which accounted for approximately 57% of sales, compared to about 665.5 million NIS in the corresponding quarter last year, which accounted for approximately 57.4% of sales, an increase of 10.6%.

Operating profit

The operating profit from Information technology solutions and services, consulting and management in Israel amounted this quarter to NIS 54.2 million (7.4% of the segment's revenues), compared with NIS 54.1 million (8.1% of the segment's revenues), similar to the corresponding quarter last year.

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

Canceling the effect of the termination of the Infinity merger as aforesaid, in the first quarter, the Company recorded "organic growth" in this segment in revenues and operating profit at a rate of 17.5% and 13.6%, respectively.

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

	For the period of three months ended 31.03.23	For the period of three months ended 31.03.22	Percentage change
Revenues	30.5	29.7	2.7%
Operating profit	4.2	3.2	31.2%
Rate of profit	13.7%	10.8%	

Revenues

Revenues from the Information technology solutions and services segment in the United States for the quarter amounted to US\$ 30.5 million, compared with US\$ 29.7 million in the corresponding quarter last year, an increase of 2.7% in dollar terms. The results reported in NIS grew at a higher rate, as they were additionally impacted by the increase in the US dollar exchange rate during the period.

Operating profit

Operating profit from the Information technology solutions and services segment in the United States during the period amounted to US\$ 4.2 million (13.7% of the segment's revenues), compared with US\$ 3.2 million (10.8% of the segment's revenues) in the corresponding quarter last year, an increase of 31.2% in dollar terms (As mentioned, the results reported in NIS grew at a higher rate of 43% compared to the corresponding quarter last year, since they were additionally impacted by the increase in the US dollar exchange rate during the period).

The significant growth in revenues, operating profit and the rate of profitability rate in the segment, is mainly due to an increase in the scope of activity, which was accompanied by a higher utilization rate of the employees.

Sales, marketing and support of software products

Revenues

Revenues from the sales, marketing and support segment for software products in the quarter amounted to NIS 62.5 million, compared to NIS 71.1 million in the corresponding quarter last year, a decrease of 12.1%.

Operating profit

Operating profit from the software product sales, marketing and support segment in the quarter amounted to NIS 5.2 million (8.4% of the segment's revenues), compared with NIS 4.8 million (6.8% of the segment's revenues) in the corresponding quarter last year, an increase of 9.1%.

The increase in operating profit and improvement of the rate of income of the segment, stems mainly 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 375.2 million, compared to NIS 316.6 million in the corresponding quarter last year, an increase of 18.5%.

Operating profit

The operating profit from the Cloud infrastructure and computing segment in the quarter amounted to NIS 23.2 million (6.2% of the segment's revenues), compared with NIS 18.5million (5.8% of the segment's revenues) in the corresponding quarter last year, an increase of 25.5% .

The increase in revenues, operating profit and profitability rate in the quarter 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 51.1 million, compared with NIS 54 million in the corresponding quarter last year, a decrease of 5.3%.

Operating profit

Operating profit from the Training and implementation segment in the quarter amounted to NIS 6.7 million (13.1% of the segment's revenues), compared with a profit of NIS 4.6million (8.5% of the segment's revenues) in the corresponding quarter last year, an increase of 46.0 %.

The increase in operating profit and the rate of operating profit, in relation to the corresponding quarter last year, is due to an increase in the scope of the training activity at the same time as an increase in operational efficiency(saving of rent costs)' comparing to the corresponding quarter last year.

1.2.4. Commitments and special events

Distribution of dividend

Date of distribution	Dividend rate (in agorot)	Amount of dividend (NIS millions)
16.04.23	59	37.50

The Company's dividend distribution policy is a dividend distribution of up to 75% of the net annual profit attributable to the shareholders. The dividend will be distributed once per quarter subject to the distribution tests in the law, which are examined by the Board of Directors at any relevant time.

Rating

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

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

Analysis of financial position as of March 31, 2023

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

	As of 31.03.2023	As of 31.03.2022	Change
Cash and cash equivalents	648,014	715,842	(67,828)
Short-term credit	(566,067)	(721,331)	155,264
Long-term credit	(618,412)	(374,260)	(244,152)
"Net" debt – short-term and long-term credit, net of cash and cash equivalents	(536,465)	(379,749)	(156,716)
Total balance sheet	4,041,407	3,615,441	425,966
Rate of "net" debt to balance sheet	13.3%	10.5%	
Current ratio (including liabilities in respect of lease)	1.17	1.21	
Balance of retained earnings	586,289	524,130	62,159
Total equity	952,603	850,988	101,615
Rate of equity to balance sheet	23.6%	23.5%	

Condensed consolidated statements of financial position (NIS in thousands)

	As of 31.03.2023	As of 31.03.2022	Change
Cash and cash equivalents	648,014	839,313	(191,299)
Trade receivable and unbilled receivables, net	1,582,496	1,481,761	100,735
All other current assets	319,529	258,417	61,112
Total current assets	2,550,039	2,579,491	(29,452)
Goodwill and intangible assets	1,037,585	997,772	39,813
All other non-current assets	453,783	425,513	28,270
Total non-current assets	1,491,368	1,423,285	68,083
Total assets	4,041,407	4,002,776	38,631
Short-term bank credit and other service providers	566,067	521,287	44,780
Trade payables	556,983	620,609	(63,626)
Employees	401,275	407,309	(6,034)
Deferred income	323,651	286,172	37,479
All other current liabilities	326,898	290,425	36,473
Total current liabilities	2,174,874	2,125,802	49,072
Liabilities to banking corporations and other service providers	618,412	699,873	(81,461)
Deferred income	26,375	30,860	(4,485)
All other non-current liabilities	218,734	181,366	37,368
Total non-current liabilities	863,521	912,099	(48,578)
Capital attributable to Shareholders of the Company	952,603	916,409	36,194
Non-controlling interests	50,409	48,466	1,943
Total	4,041,407	4,002,776	38,631

The (net) decrease in current assets during 2022 is mainly due to an decrease in the cash and cash equivalents section which was partially offset by an increase in customers and receivables, mainly as a result of the consolidation of Zebra. The increase in current liabilities is mainly due to an increase in the items, Short-term bank credit and other service providers , and short-term deferred income , which was partially offset by a decrease in the suppliers item.

The decrease in non-current liabilities is due to a decrease in liabilities to banking corporations and other long-term credit providers, as a result of transfer of these long term bank loans to current liabilities, since they have reached their current maturities date.

Condensed Statements of cash flow (NIS in thousands)

	For the period of three months ended 31.03.2023	For the period of three months ended 31.03.2022
Net cash provided by operating activities:		
Net income	64,346	67,985
Adjustments to the profit and loss items	89,134	55,243
Changes in asset and liability items	(157,964)	(83,328)
Cash paid and received for interest and taxes	(45,980)	(15,730)
Net cash provided by operating activities	(49,464)	24,170
Net cash provided by investing activities:		
Purchase of property, plant and equipment	(13,281)	(11,144)
Acquisition of companies and activities	(38,034)	-
Others (net)	389	(293)
Net cash provided by (used in) investing activities	(50,926)	(11,437)
Net cash used in financing activities		
Receipt (repayment) of credit, net	(59,423)	186,902
Dividends paid	-	-
Repayment of capital lease obligation	(32,786)	(21,938)
Dividend paid to non-controlling interests	(2,994)	-
Others	(2,889)	-
Net cash used in financing activities	(98,102)	164,964

Cash flows from operating activities

In the first quarter of 2023, the Company recorded a negative cash flow from operating activities amounting to NIS 49 million compared with a positive cash flow from operating activities amounting to NIS 24 million in the corresponding period last year.

The cash flow in the quarter was affected by a decrease of approximately NIS 157 million in working capital in the first quarter compared to a decrease of approximately NIS 83 million in the corresponding quarter. The decrease in working capital in the quarter is mainly due to a decrease in the suppliers section in the amount of approximately NIS 143 million (excluding the Zebra merger).

Cash flows from investing activities

The cash flow used for investment activities for the quarter amounted to approximately NIS 51 million (approximately NIS 11 million in the corresponding quarter), which were mainly used for the purchase of the Zebra subsidiary in the amount of approximately NIS 38 million

Cash flows used in financing activities

The cash flows used for financing operations in the quarter amounted to approximately NIS 98 million (approximately NIS 165 million in the corresponding quarter), including mainly credit repayment (net) in the amount of approximately NIS 59 million (credit receipt (net) of approximately NIS 187 million in the corresponding quarter), and repayment of liabilities for a lease totaling approximately NIS 33 million (approximately NIS 22 million in the corresponding quarter).

Average short-term credit (NIS in thousands)

	As of 31.03.2023	As of 31.03.2022
Trade receivables	1,591,015	1,359,972
Trade payables	628,050	437,995

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

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

As of March 31, 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 three months ended 31.03.2023	For the period of three months ended 31.03.2022
Opening balance	964,875	878,054
Net income	65,346	67,985
Dividend paid	(37,478)	(40,874)
Purchase of rights and dividend to non-controlling interests (net)	(2,994)	-
Translation adjustments	8,399	4,789
Other – net	4,864	(9,403)
Closing balance	1,003,012	900,551

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

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.

May 10, 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 March 31, 2023:	475,615
The balance of the nominal value at the date of the Report when revalued according to the terms of linkage:	The series in unlinked
Value in the financial statements at March 31, 2023 (amortized cost according to the effective interest method):	464,058
Interest accrued at March 31, 2023:	3,312
Stock exchange value at March 31, 2023:	475,615
Type of interest:	Fixed interest at a rate of 4.1% per annum; It should be noted that the trust deed in respect of the Series B debentures attached to the offer report (the Trust Deed) provided mechanisms for adjustment of a change in the annual interest in respect of the Series B debentures, this, if there is non-compliance with the financial covenants or if there is a decrease in the rating of the Series B debentures pursuant to the said adjustment mechanisms (cumulatively). The overall rate of interest increments will not exceed 1%. For details, see sections 5.8 and 5.8 to the Trust Deed.
Payment dates of principal:	The principal of the Series B debentures shall be due for repayment in fourteen (14) six-monthly installments, made up of thirteen equal payments - each payment being 7.14% of the principal and the last payment being 7.18%, commencing August 1, 2023 through February 1, 2030.
Dates of payment of interest:	The interest in respect of the Series B debentures shall be paid in six-monthly installments, to be paid on February 1 and August 1, commencing February 1, 2023 through February 1, 2030.
Linkage base of principal and interest:	The Series B debentures are unlinked (principal and interest) to any linkage base.
Is there a right of conversion?	No
Early repayment or forced conversion of the debentures:	The Company shall be entitled of its own initiative to make the debentures available for early repayment, all in accordance with the provisions of section 6.2 of the Trust Deed.
Guarantee to pay the Company's liabilities according to the Trust Deed:	None
Does the date of the Company Report comply with all of the conditions and	Yes

Disclosure item	Details regarding the Series B debentures (2)
undertakings according to the Trust Deed?	
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 March 31, 2023, as follows:

Security	Balance of nominal value of the security in circulation as of 31.12.2022	Balance of nominal value of the security in circulation immediately prior to the date of the Report	Financial covenant	Actual covenant as of 31.03.2023
Series B debenture	475, 615	475, 615	Ratio of consolidated net financial debt (as defined in the Trust Deed) to total balance sheet must not exceed 45%	13.3%
Series B debenture	475, 615	475, 615	Ratio of consolidated net financial debt (as defined in the Trust Deed to adjusted EBITDA (as defined in the Tt Deed) must not exceed 5	0.98
Series B debenture	475, 615	475, 615	Shareholders' equity (as defined in the Trust Deed) is minimal, must be not less than NIS 275,000 thousand	1,003,012

CHAPTER B

Condensed consolidated interim
financial statements
1 January-31 March 2023
(Unaudited)



Table of Contents

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS TO THE SHAREHOLDERS	3
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	4
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	6
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY- (Unaudited)	7
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY- (Audited)	9
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS	10
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	14

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 Company"), which comprise the condensed consolidated statement of financial position as of March 31, 2023 and the related condensed consolidated statement of profit or loss, comprehensive income, changes in equity and cash flows for the 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 9.5% of total consolidated assets as of March 31, 2023 and whose revenues included in consolidation constitute approximately 6.4% of total consolidated revenues for the 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.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (In thousand NIS)

	31, March		31, December
	2023	2022	2022
	Unaudited		Audited
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	648,014	715,842	839,313
Trade receivables	1,582,496	1,322,971	1,481,761
Income taxes receivable	33,699	22,702	27,341
Other accounts receivable	151,385	149,594	112,750
Inventories	134,445	103,225	118,326
	<u>2,550,039</u>	<u>2,314,334</u>	<u>2,579,491</u>
NON-CURRENT ASSETS:			
Investments and other loans	16,800	908	16,800
Long term prepaid expenses	38,155	44,360	39,287
Right to use assets	203,407	133,082	180,344
Property, plant and equipment, net	102,414	97,286	98,165
Goodwill	932,423	844,509	898,516
Intangible assets, net	105,162	103,043	99,256
Deferred taxes	93,007	77,919	90,917
	<u>1,491,368</u>	<u>1,301,107</u>	<u>1,423,285</u>
	<u>4,041,407</u>	<u>3,615,441</u>	<u>4,002,776</u>

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

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (In thousand NIS)

	31, March		31, December	
	2023	2022		
	Unaudited	Audited		
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Credit from banks and others	481,562	721,331	471,454	
Current maturities debenture	84,505	-	49,833	
Current maturities lease liability	124,942	77,535	105,853	
Trade payables	556,983	493,250	620,609	
Income taxes payable	16,618	19,625	18,379	
Other accounts payable	48,303	28,989	66,306	
Dividend Payable	37,478	58,493	-	
Employees and payroll accruals	401,275	367,275	407,309	
Liabilities in respect of business combinations	3,959	2,246	6,774	
Put options of non-controlling interests	95,598	56,570	93,113	
Deferred revenues	323,651	273,104	286,172	
	2,174,874	2,098,418	2,125,802	
NON-CURRENT LIABILITIES:				
Loans from banks and others	229,914	374,260	274,525	
Debenture	388,498	-	425,348	
Deferred revenues	26,375	52,567	30,860	
Put options of non-controlling interests	33,120	50,406	7,432	
Lease liabilities	81,092	57,194	75,755	
Deferred taxes	78,036	58,580	72,531	
Liabilities in respect of business combinations	17,418	8,194	17,378	
Employee benefit liabilities	9,068	15,271	8,270	
	863,521	616,472	912,099	
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:				
Share capital and capital reserves	366,314	326,858	354,632	
Retained earnings	586,289	524,130	561,777	
	952,603	850,988	916,409	
Non-controlling interests	50,409	49,563	48,466	
TOTAL EQUITY	1,003,012	900,551	964,875	
	4,041,407	3,615,441	4,002,776	

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

May 10, 2023			
Date of approval of the financial statements	Guy Bernstein Chairman of the Board	Moti Gutman Chief Executive Officer	Nevo Brenner Chief Financial Officer

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	March 31,		December 31,
	2023	2022	2022
NIS in thousands (except per share data)			
	Unaudited	Unaudited	Audited
Revenues	1,291,153	*1,157,985	4,672,689
Cost of revenues	1,102,535	*990,189	4,000,682
Gross profit	188,618	167,796	672,007
Selling and marketing expenses	45,176	39,840	166,246
General and administrative expenses	41,977	35,858	155,273
Gain from realization of subsidiary	-	-	150,059
Operating income	101,465	92,098	500,547
Financial expenses	20,761	6,976	50,801
Financial income	3,870	-	5,020
Income before taxes on income	84,574	85,122	454,766
Taxes on income	19,228	17,137	100,285
Net income	65,346	67,985	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	1,250	3,400	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	9,027	4,789	35,842
Change in Fair Value of hedge instrument for cash hedging	(628)	-	(375)
Total comprehensive income	74,995	76,174	398,871
Net income attributable to:			
Equity holders of the Company	60,740	59,144	334,669
Non-controlling interests	4,606	8,841	19,812
	65,346	67,985	354,481
Total comprehensive income attributable to:			
Equity holders of the Company	70,386	67,075	379,261
Non-controlling interests	4,609	9,099	19,610
	74,995	76,174	398,871
Net earnings per share attributable to equity holders of the Company (in NIS):			
Basic net income	0.96	0.94	5.32
Diluted net income	0.96	0.94	5.30

*Reclassified (see note 2.s.(8) in the yearly financial statements)

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

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

	Attributed to the Company's shareholders							Total	Non-controlling interests	Total equity
	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			
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	-	-	-	60,740	-	-	-	60,740	4,606	65,346
Foreign currency translation reserve from operations abroad and Forex Hedging	-	-	-	-	8,396	-	-	8,396	3	8,399
Actuarial gain from defined benefit plans	-	-	-	1,250	-	-	-	1,250	-	1,250
Total other comprehensive gain (loss)	-	-	-	1,250	8,396	-	-	9,646	3	9,649
Total comprehensive income	-	-	-	61,990	8,396	-	-	70,386	4,609	74,995
Exercise of employee phantom options	253	3,533	-	-	-	-	(3,806)	-	-	-
Transaction with non-controlling interests	-	-	-	-	-	-	738	738	328	1,066
Dividend declared	-	-	-	(37,478)	-	-	-	(37,478)	-	(37,478)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	(2,994)	(2,994)
Share-based payment	-	-	-	-	-	-	2,548	2,548	-	2,548
Balance as of March 31, 2023	68,255	309,447	(7,982)	586,289	(11,191)	10,186	(2,401)	952,603	50,409	1,003,012

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

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

	Attributed to the Company's shareholders							Total	Non-controlling interests	Total equity
	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			
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	-	-	-	59,144	-	-	-	59,144	8,841	67,985
Foreign currency translation reserve from operations abroad	-	-	-	-	4,531	-	-	4,531	258	4,789
Actuarial gain from defined benefit plans	-	-	-	3,400	-	-	-	3,400	-	3,400
Total other comprehensive gain (loss)	-	-	-	3,400	4,531	-	-	7,931	258	8,189
Total comprehensive income	-	-	-	62,544	4,531	-	-	67,075	9,099	76,174
Exercise of employee phantom options	288	4,264	-	-	-	-	(4,552)	-	-	-
Dividend paid	-	-	-	(40,874)	-	-	-	(40,874)	-	(40,874)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	(12,578)	(12,578)
Share-based payment	-	-	-	-	-	-	(225)	(225)	-	(225)
Balance as of March 31, 2022	67,991	305,709	(7,982)	524,130	(50,725)	10,186	1,679	850,988	49,563	900,551

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

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

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

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three month ended		Year ended
	March 31, 2023	March 31, 2022	December 31, 2022
	Unaudited	Unaudited	Audited
	NIS in thousands		
Cash flows from operating activities:			
Net income	65,346	67,985	354,481
Adjustments to reconcile net income to net cash provided by operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	47,298	35,436	162,225
Taxes on income	19,228	17,137	100,285
Change in employee benefit liabilities	2,293	665	671
Other financial expenses, net	14,972	1,328	*21,745
Revaluation of long-term loans from banks	(161)	(68)	(26)
Revaluation of liabilities in respect of business combinations	(32)	80	417
Capital loss (gain) from sale of property, plant and equipment	(223)	28	(197)
Share-based payment	2,777	333	1,330
Gain from realization of Subsidiary	-	-	(150,059)
Increase (decrease) in value of put options of non-controlling interests	2,982	304	12,159
	89,134	55,243	148,550
Changes in asset and liability items:			
Increase in trade receivables	20,247	78,615	(77,873)
Decrease (increase) in other accounts receivable and prepaid expenses	(33,237)	(41,910)	(7,898)
Decrease (increase) in inventories	(780)	(40,655)	(47,062)
Increase (decrease) in trade payables	(143,486)	(32,744)	65,191
Increase (decrease) in employee benefit liabilities, deferred revenues and other accounts payable	(708)	(46,634)	53,083
	(157,964)	(83,328)	(14,559)
Cash paid and received during the year for:			
Interest paid	(20,020)	(4,613)	(28,408)
Taxes paid	(29,990)	(27,107)	(91,991)
Taxes received	4,030	15,990	19,318
	(45,980)	(15,730)	(101,081)
Net cash provided by (used in) operating activities	(49,464)	24,170	387,391

*Reclassified

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three month ended		Year ended
	March 31,	March 31,	December 31,
	2023	2022	2022
	Unaudited	Unaudited	Audited
	NIS in thousands		
<u>Cash flows from investing activities:</u>			
Proceeds from sale of property, plant and equipment	1,139	96	1,244
Purchase of property, plant and equipment	(13,281)	(11,144)	(38,757)
Software Research and Development costs	(750)	-	-
Acquisition of initially consolidated subsidiaries (a)	(38,034)	-	(41,005)
Payment of initially consolidated subsidiary	-	(389)	(389)
Proceeds from Disposal of Subsidiary	-	-	143,641
Tax payment of Disposal of Subsidiary	-	-	(28,300)
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by (used in) investing activities	<u>(50,926)</u>	<u>(11,437)</u>	<u>36,434</u>
<u>Cash flows from financing activities:</u>			
Change in short-term credit from banks and other credit providers, net	4,358	245,522	(24,441)
Receipts of long-term loans from banks and others	-	-	90,000
Repayment of long-term loans from banks and others	(63,781)	(58,620)	(233,159)
Dividend paid	-	-	(284,275)
Repayment of liabilities in respect of business combinations	(2,899)	-	(3,132)
Repayment of capital lease obligation	(32,786)	(21,938)	(107,135)
Dividend paid to non-controlling interests	(2,994)	-	(45,368)
	-	-	-
Repayment of liabilities in respect of NCI Options	-	-	(3,359)
Proceeds from issuance of Debenture	-	-	471,476
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by (used in) financing activities	<u>(98,102)</u>	<u>164,964</u>	<u>(139,393)</u>
Exchange rate differences on balances of cash and cash equivalents	<u>7,193</u>	<u>4,013</u>	<u>20,749</u>
Increase (Decrease) in cash and cash equivalents	(191,299)	181,710	305,181
Cash and cash equivalents at the beginning of the year	<u>839,913</u>	<u>534,132</u>	<u>534,132</u>
Cash and cash equivalents at the end of the year	<u>648,014</u>	<u>715,842</u>	<u>839,313</u>

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Three month ended</u>		<u>Year ended</u>
	<u>March 31,</u>	<u>March 31,</u>	<u>December31,</u>
	<u>2023</u>	<u>2022</u>	<u>2022</u>
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Audited</u>
<u>NIS in thousands</u>			
(a) <u>Acquisition of initially consolidated subsidiaries:</u>			
The subsidiaries' assets and liabilities at date of acquisition:			
Working capital (excluding cash and cash equivalents)	(36,212)	-	(1,831)
Property, plant and equipment	(287)	-	(2,315)
Long term Deposits	-	-	(2)
Inventories	(15,339)	-	(8,694)
Deferred taxes	(350)	-	(2,363)
Goodwill	(28,694)	-	(36,322)
Intangible assets	(11,194)	-	(12,007)
Other short-term liabilities	25,081	-	4,801
Employee benefit liabilities	129	-	216
Deferred taxes	2,575	-	2,761
Liability of put options to non-controlling interests	26,257	-	-
Liability in respect of business combinations	-	-	14,751
	<u>(38,034)</u>	<u>-</u>	<u>(41,005)</u>
(b) <u>Significant non-cash transactions:</u>			
Declared dividend but not paid	37,478	57,259	-
Right-of-use asset recognized with corresponding lease liability	55,214	8,762	143,762
	<u>92,692</u>	<u>66,021</u>	<u>143,762</u>

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three month ended		Year ended
	March 31,	March 31,	December31,
	2023	2022	2022
	NIS in thousands		
(c) Disposal of consolidated subsidiary:			
The subsidiary's assets and liabilities at date of disposal:			
Working capital (excluding cash and cash equivalents)	-	-	(24,707)
Investment in Securities	-	-	16,745
Property, plant and equipment	-	-	2,615
Deferred taxes	-	-	223
Goodwill	-	-	1,470
Employee benefit liabilities	-	-	(51)
Non-controlling interests	-	-	(2,713)
Gain on disposal of Subsidiary	-	-	150,059
	<u>-</u>	<u>-</u>	<u>143,641</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 1:- GENERAL**

- a. Matrix IT Ltd. ("the Company") was incorporated in Israel and began its business operations on September 12, 1989. The Company provides advanced Information Technological services .
- b. These financial statements were prepared in a condensed format as of March 31, 2023 and for the three-month period that ended on that date (hereinafter - consolidated interim financial statements). The summary of the consolidated financial statements of the group as of March 31, 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 as of 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.
- d. The Company's shares are traded In the Tel Aviv Stock Exchange.

The company operates in five operating segments as follows:

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

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 31.03.23	As of 31.03.22	As of 31.12.22
Consumer Price Index-CPI (Basis 2000)			
In Israel (Prevailing Index)	103.2	98.3	102.0
In Israel (Known Index)	102.8	97.7	101.7
Exchange rate against NIS			
Dollar	3.615	3.176	3.519
Euro	3.9322	3.5236	3.753

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 31.03.23 %	Period ended 31.03.22 %	Year ended 31.12.22 %
Consumer Price Index-CPI (Basis 2000)			
In Israel (Prevailing Index)	1.19	1.46	5.26
In Israel (Known Index)	1.08	1.17	5.28
Exchange rate against NIS			
Dollar	2.73	2.12	0.82
Euro	4.77	0.11	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 1 - Disclosure of Accounting Policies:

In February 2021, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" ("the Amendment"), which replaces the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. One of the main reasons for the Amendment is the absence of a definition of the term 'significant' in IFRS whereas the term 'material' is defined in several standards and particularly in IAS 1.

The Amendment is effective for annual periods beginning on or after January 1, 2023.

The above Amendment did not have an effect on the Company's interim consolidated financial statements. However, the Company is evaluating whether the Amendment will affect the disclosures of accounting policies in the Company's annual consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS

a. General:

The activity segments were determined based on the information reviewed by the Chief Operating Decision Maker (CODM) for resource allocation and performance evaluation purposes. Accordingly, for management purposes, the group is structured according to activity segments based on the products and services and the geographic location of the business units.

The Company operates through subsidiaries in the following segments:

- Information Technologies (IT) Software solutions and services, Consulting & Management in *Israel*.
- Information Technologies (IT) Software solutions and services in US.
- Training and implementation.
- Cloud infrastructure and computer solutions.
- Software product marketing and support.

Information Technologies (IT) Software solutions and services, Consulting & Management in Israel.

Operations in this segment focus mainly on the development of large-scale technological systems and the provision of related services, including consulting and management, integration of computer and software, integration projects, outsourcing, software project management, software development, software testing, and QA. In addition, the activities in this area include management consulting services and multi-disciplinary operational and engineering consulting, including supervision of complex engineering projects, all according to the specific needs of the customer, and in accordance with the professional expertise required in each case.

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

The activity in this area, which is carried out through two arms - Matrix US Holding and Xtivia, each of which owns a number of subsidiaries in the USA.

Activities in this segment include the provision of solutions and services to experts in the GRC field including Financial risk management, Fraud prevention, Anti-money laundering, Trade surveillance, Payment Services and Regulatory compliance security, as well as, specialized advisory services in the area of compliance with financial regulation and operational services. In addition, the activity in this area includes the provision of specialized technological solutions and services in the areas of: Portals, BI, Data Base Administration (DBA), CRM (Customer Relation Management), and EIM (Enterprise Information Management). In addition, the activity in this segment includes:

dedicated solutions for the Gov. Con. (Government contracting market), IT Help Desk services specializing in Healthcare and Software distribution services.

In addition, the activity in this field includes professional services and Off-Shore solutions including through employees in the Company's activity centers in India and professional services and projects through personnel from across the Matrix group, as a gateway to a business model of exporting the company's services and products in the USA.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS (CONT.)***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 - DataZone as well as the representation of leading manufacturers of test and measurement equipment, communication and cyber and RF solutions, projects and integration in the field of automation, calibration services in advanced technologies and the provision of industrial video and image processing solutions adapted to the needs of the customer, through the business units specializing in this field - RDT Equipment and Systems and Asio Vision.

Software product marketing and support:

This segment is mainly software sales and distribution (mostly from abroad), and provides professional support for these products to customers, including marketing and maintenance of software products in various fields, providing professional support services for these products to customers as well as implementation, training, support and maintenance projects for the products and the integrated systems.

The accounting policies of the operating segments are the same as those presented in Note 2.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS (CONT.)

b. Reporting on operating segments:

	Three months ended March 31, 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
Revenues from external customers	718,676	49,800	53,486	361,482	107,709	-	1,291,153
Inter-segment revenues	17,329	1,315	8,994	13,702	161	(41,501)	-
Revenues	736,005	51,115	62,480	375,184	107,870	(41,501)	1,291,153
Segment operating results	54,230	6,704	5,237	23,169	14,705	(2,580)	465,101
Financial expenses							(20,761)
Financial income							3,870
Taxes on income							(19,228)
Net income							65,346

	Three months ended March 31, 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
Revenues from external customers	650,659	53,227	67,199	*292,499	94,541	--	*1,157,985
Inter-segment revenues	14,956	750	3,859	24,184	351	(44,100)	-
Revenues	665,525	53,977	71,058	*316,633	94,892	(44,100)	*1,157,985
Segment operating results	54,124	4,592	4,802	18,457	10,289	(166)	92,098
Financial expenses, net							(6,976)
Taxes on income							(17,137)
Net income							67,985

*Reclassified (see note 2. s.(8) in the yearly financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- 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.			
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	<u>2,508,477</u>	<u>211,958</u>	<u>271,029</u>	<u>1,427,416</u>	<u>434,901</u>	<u>(181,092)</u>	<u>4,672,689</u>	
Amortization and depreciation	121,975	6,489	3,531	25,573	4,657	-	162,225	
Segment operating results	<u>180,359</u>	<u>24,883</u>	<u>24,200</u>	<u>76,607</u>	<u>60,228</u>	<u>(15,789)</u>	<u>350,488</u>	
Gain from Realization of Subsidiary							150,059	
Financial expenses							(50,801)	
Financial income							5,020	
Taxes on income							(100,285)	
Net income							<u>354,481</u>	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- Significant events during the reporting period

1. On January 1, 2023, the Company purchased 70% of the share capital of Zebra Technologies Ltd. ("Zebra") for NIS 53 million (including equity). Zebra is engaged in the distribution and marketing of solutions in the fields of data communication, cyber protection, hardware, software and services. As part of the transaction, the company entered into a mutual option agreement with the seller for the sale and purchase of the remaining shares. As of the date of the report, the valuation underlying the attribution of the proceeds to the assets and liabilities (PPA), has not yet been completed, and accordingly this attribution is temporary, according to management's assessment and will be updated in the following periods after the completion of the valuation. According to the temporary purchase price allocation, the excess purchase cost of 37.3 million NIS was attributed by the Company to intangible assets 11.2 million and the balance was attributed to goodwill.
2. 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 pennies for every 1 shekel of ordinary shares).
3. 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 of 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%.