Matrix I.T. Ltd.

Periodic Report For 2023

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CHAPTER A

Description of the Corporation`s Business

The information contained in these Description of the Corporation`s Business published by the Company constitutes a translation of the Description of the Corporation`s Business 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.

In deep grief, Matrix honors the memory of its employees- Aviv Kotz, and his family, who were brutally murdered, and the late sergeant major (Res.) Raphael Elias Moshioff, killed in battle in Gaza for the defense of the State.

Matrix share in the grief of all the families of the fallen and the murdered, and wish full and a speedy recovery to the injured, we pray and wish for the return alive of all the kidnapped as soon as possible, and we fully back the security forces in this most important mission.

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

1.1 General

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

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

1.2 Purchase or sale of assets on a substantial extent

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

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

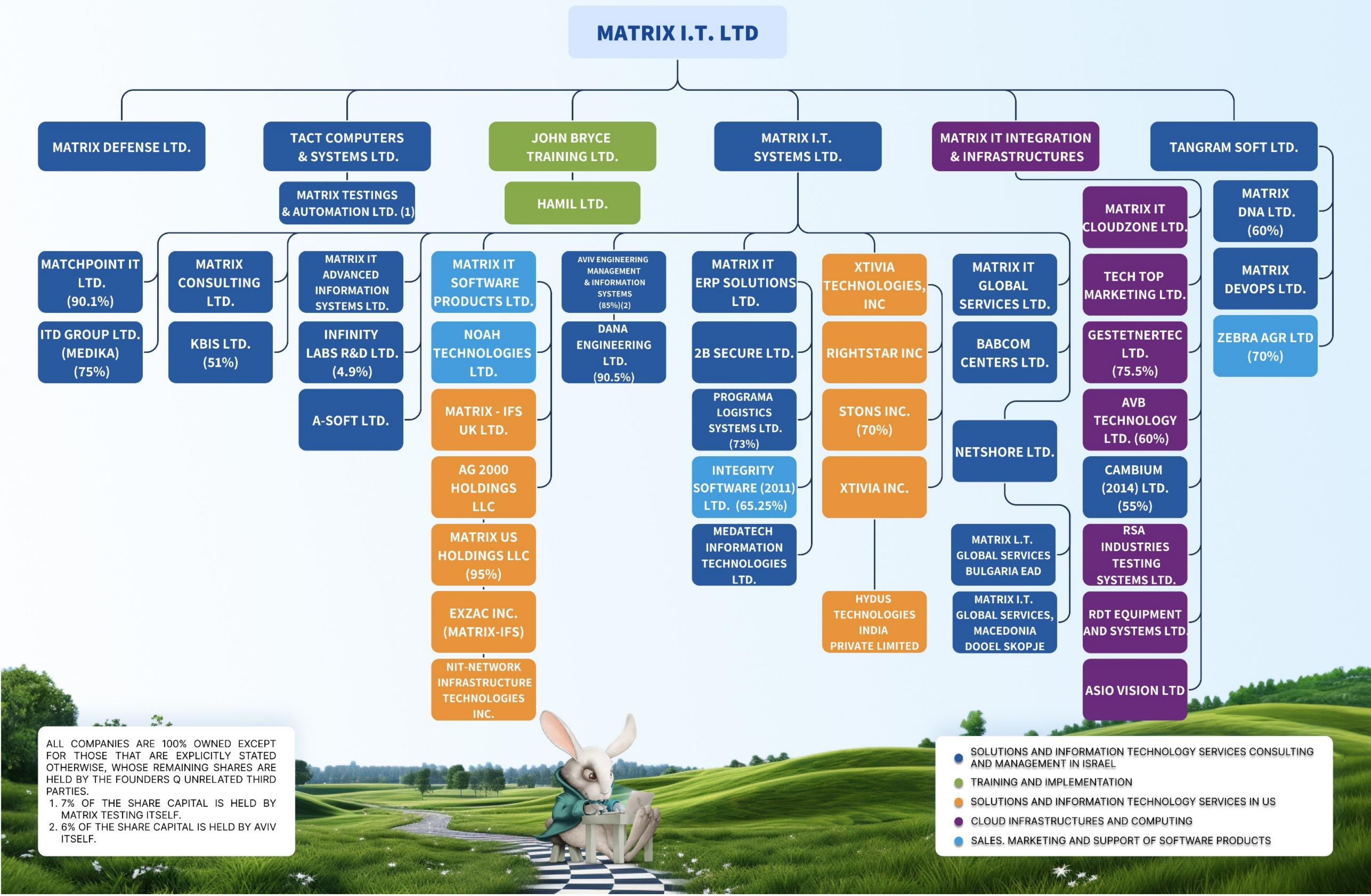
1.2.3 On January 1, 2023, after the date of the financial statements, the Company completed the acquisition of Zebra AGR Ltd., which is engaged in the distribution of solutions in the fields of information security and data communication. Zebra will be consolidated in the company's financial statements commencing the first quarter of 2023, as part of the segment of sales, marketing, and support of software products. For further details, see note 3c to the financial statements.

1.3 Structure of holdings

The diagram below shows the Company's holdings in the Matrix Group[2] as of the date of the Company's annual report for 2023 ("the Report"), classified by areas of activity:

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

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


MATRIX I.T. LTD
MATRIX DEFENSE LTD.
TACT COMPUTERS & SYSTEMS LTD.
MATRIX TESTINGS & AUTOMATION LTD. (1)
JOHN BRYCE TRAINING LTD.
HAMIL LTD.
MATRIX I.T. SYSTEMS LTD.
MATRIX IT INTEGRATION & INFRASTRUCTURES
TANGRAM SOFT LTD.
MATCHPOINT IT LTD. (90.1%)
ITD GROUP LTD. (MEDIKA) (75%)
MATRIX CONSULTING LTD.
KBIS LTD. (51%)
MATRIX IT ADVANCED INFORMATION SYSTEMS LTD.
INFINITY LABS R&D LTD. (4.9%)
A-SOFT LTD.
MATRIX IT SOFTWARE PRODUCTS LTD.
NOAH TECHNOLOGIES LTD.
MATRIX - IFS UK LTD.
AG 2000 HOLDINGS LLC
MATRIX US HOLDINGS LLC (95%)
EXZAC INC. (MATRIX-IFS)
NIT-NETWORK INFRASTRUCTURE TECHNOLOGIES INC.
AVIV ENGINEERING MANAGEMENT & INFORMATION SYSTEMS (85%)(2)
DANA ENGINEERING LTD. (90.5%)
MATRIX IT ERP SOLUTIONS LTD.
2B SECURE LTD.
PROGRAMA LOGISTICS SYSTEMS LTD. (73%)
INTEGRITY SOFTWARE (2011) LTD. (65.25%)
MEDATECH INFORMATION TECHNOLOGIES LTD.
XTIVIA TECHNOLOGIES, INC
RIGHTSTAR INC
STONS INC. (70%)
XTIVIA INC.
HYDUS TECHNOLOGIES INDIA PRIVATE LIMITED
MATRIX IT GLOBAL SERVICES LTD.
BABCOM CENTERS LTD.
NETSHORE LTD.
MATRIX I.T. GLOBAL SERVICES BULGARIA EAD
MATRIX I.T. GLOBAL SERVICES, MACEDONIA DOOEL SKOPJE
MATRIX IT CLOUDZONE LTD.
TECH TOP MARKETING LTD.
GESTETNERTEC LTD. (75.5%)
AVB TECHNOLOGY LTD. (60%)
CAMBIUM (2014) LTD. (55%)
RSA INDUSTRIES TESTING SYSTEMS LTD.
RDT EQUIPMENT AND SYSTEMS LTD.
ASIO VISION LTD
MATRIX DNA LTD. (60%)
MATRIX DEVOPS LTD.
ZEBRA AGR LTD (70%)
ALL COMPANIES ARE 100% OWNED EXCEPT FOR THOSE THAT ARE EXPLICITLY STATED OTHERWISE, WHOSE REMAINING SHARES ARE HELD BY THE FOUNDERS Q UNRELATED THIRD PARTIES.
1. 7% OF THE SHARE CAPITAL IS HELD BY MATRIX TESTING ITSELF.
2. 6% OF THE SHARE CAPITAL IS HELD BY AVIV ITSELF.
SOLUTIONS AND INFORMATION TECHNOLOGY SERVICES CONSULTING AND MANAGEMENT IN ISRAEL
TRAINING AND IMPLEMENTATION
SOLUTIONS AND INFORMATION TECHNOLOGY SERVICES IN US
CLOUD INFRASTRUCTURES AND COMPUTING
SALES. MARKETING AND SUPPORT OF SOFTWARE PRODUCTS

2. Areas of activity

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

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

Below is a percentage distribution table of the Company's customers, according to sectoral affiliation, for all of the Company's activities for 2023:

Area	Percentage
Banking, finance, and insurance	18.1%
High Tech	14.1%
Government	17.6%
Defense	8.9%
Transportation	6.8%
Health	5.7%
Communication	3%
Retail,industry	10%
Other areas	15.8%

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

- Centers of expertise - a group of about 30 centers of excellence (CoE), in areas such as Digital, Cloud, Customer Experience, Mobile, Data, Security & Cyber, AI, Machine learning, Learning Technology, Open Source, DevOps, Agile & ALM, ERP, CRM, Smart Campus, Low Code, Data Bricks, etc. The centers of excellence are based on an organizational concept that aims to provide substantial professional-technological added values to both the Company's development teams and to the Company's customers, including groups of experts specializing in the areas of content, practical experience in the specialized technologies, a comprehensive team (which includes, among other things, methodologies, and best practices) which shorten the time to go live and reduce risks, technological support of the CTO team in the Company, etc.
- Comprehensive management and engineering consulting services, from the stage of formulating the strategy and management consulting to the stages of execution and implementing the change, including the management of complex projects, including engineering projects, large-scale engineering supervision projects, in particular, in the field of transportation, and projects in the field of planning and environmental quality, as well as multidisciplinary engineering consulting services, and consulting and implementation services in the field of supply chain management and logistical-operational management.
- Matrix R&D Services and Offshore provides software development services, testing, and quality assurance services in the Offshore and Nearshore model.

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

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

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

Information technology solutions and services in the USA

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

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

Sales, marketing, and support of software products

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

Cloud infrastructure and computing

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

Training and implementation

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

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

In the years 2022-2023, and through the date of the Report, no investments were made in the Corporation's capital (other than as part of the exercise of options or the exercise of restricted share units (RSU) by officers); nor were any significant transactions made in the Company's shares by interested parties outside the stock exchange.

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

4. Dividend distribution

4.1 For details regarding the dividends distributed by the Company during 2022 and 2023 and through the date of publication of the Report, see note 17e to the financial statements.

4.2 Retained earnings

As of December 31, 2023, the balance of profits available for distribution (retained earnings) total NIS 665,981 thousand.

4.3 Dividend policy

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

4.4 Restrictions on the Corporation's ability to distribute dividends

For details regarding the financial criteria to which the Company committed, see notes 10d and 19.a.1 to the financial statements.

5. Financial information regarding Matrix's areas of activity

For financial information regarding the Company's areas of activity, see notes 1a and 24 to the financial statements and sections 1.2.4 and 1.2.5 to the Report of the Board of Directors.

6. General environment and the influence of external factors

6.1 The Group's activity may be substantially affected by several main, general, and external factors in the main geographic markets in which it operates - mainly Israel and the USA.

The Israeli market

6.2 General Environment in Israel

The Israeli economy is directly affected by the global economy, which in 2023 continued to face the consequences of rising inflation, rising interest rates, and low growth. While in the world the economy showed a trend of recovery, the Israeli economy experienced unique and complex local events in the past year that had a substantial impact. The year 2023 began with political struggles surrounding the government's moves to promote fundamental changes in the legal system ("legal reform"), moves that led to a rift in Israeli society, contributed to an increase in uncertainty in the economy, and affected the activity of the business sector, including the high-tech sector. Later, on October 7, 2023, a brutal attack was carried out by the terrorist organization Hamas on the State of Israel, which led to an ongoing war that continues to this day. The great uncertainty regarding the duration of the war, its intensity, and its economic consequences, also led to a downward revision of the economic growth forecast, an expected increase in the government deficit, and the Debt-to-GDP ratio, and a lowering of the credit rating of the State of Israel. For a full breakdown of all these issues as well as their implications for the Company's business, see section 1.1.2 of the Board of Director`s report.

6.3 Trends in the information technology market (IT)

Below are detailed in this section the global trends in this field for 2023, which were also reflected in the Israeli IT market.

Year 2023 is still a weaker year than the post-corona years. According to Forrester, this year should have ended with a 4% increase in global IT spending. According to Gartner, the growth is expected to be only 3.3%. The increase in software and IT services according to the forecast of the two companies exceeded 18%, while the investments in end devices, hardware in general, and communication services are very low, and some of them are even decreasing, which results in an increase of 3.3%/4% in Gartner accordingly.

In Israel, the forecasts for IT expenses in 2023 are greatly influenced by the war, the geopolitical situation of Israel, and the uncertainties derived from it. IDC predicts that the increase in IT spending in Israel in 2023, in light of the ongoing war, will reach about 2% and stand at only 4%, which proves, in IDC's opinion, the stability and resilence of the Israeli market. Looking ahead, analysts expect a recovery in 2024. According to Forrester, the year 2024 is expected to end with a 5.3% increase in global IT expenditures, with the software sector expected to grow by 10.5% and the IT services sector at 8.3%. According to Gartner, the growth is expected to be only 6.8%, with the software sector expected to grow by 12.7% and the IT services sector by 8.7%. Also according to Gartner, in 2024, the fastest growing areas are cloud computing with an expected increase of 19% (of which IaaS will increase by 24%), data and business applications (CRM, ERP) with an increase of 14%, and also Cyber with an increase of 14 % in 2024. Also, according to Gartner, the expected increase in Cloud computing expenses in 2023 is 17.8%, and in 2024 19%, while in the field of infrastructure cloud (IaaS) there is an increase of 24%. The growth rate of Cloud computing has decreased over 25% in 2022, yet it is the fastest growing area in IT between 5 and 6 times the average growth of IT expenses.

IDC predicts $1 billion in spending just on IaaS in Israel, which currently accounts for about 65% of the high-tech market. IDC is talking about accelerating the transition to the cloud in the public sector (and also in the business sector) not only because of the Nimbus project but to a large extent because of the needs arising from the war and the required emergency solutions.

In Israel, the forecasts for IT expenses in 2024 are still very much affected by the war, and the uncertainties derived from it. Forrester predicts that the total expenses of the public and business sectors in Israel in 2024 will increase by about 3%.

IDC predicts that the increase in IT spending in Israel in 2024 may continue to be affected negatively by about 2% and stand at only 4%, in the pessimistic scenario, or recover and grow by 6%. IDC, in the same report, talks about a 10% average annual growth (CAGR) in the years 2023-2027 in IT spending in the public sector, while the other verticals (financial, high-tech, commerce, industry) grow on average between 3% and 6% in those years (2027-2023).

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

6.4 The Hi-Tech Industry and the lack of Technological Human Capital and related professions

Year 2023 marked the continuation of the slowdown in the high-tech field in the world and in Israel in particular, in continuation due to the consequences of the social division, following the"legal reform", and in the last quarter following the consequences of the "Iron Swords War". All of these led to a sharp decrease in investments in the high-tech sector in 2023, especially from abroad. As a result, there were reductions in the workforce and layoffs in some companies in the field, including in the development centers of high-tech multinational companies. A large part of the laid-off people were taken back to work in the industry, which is still suffering from a shortage of technological manpower with an emphasis on certain positions, especially those with experience in them.

In general, the downward trend in the demand for employees in hi-tech companies may make it easier for the company to recruit and retain employees, and to mitigate pressures for wage increases on the part of the employees. At the same time, the slowdown in the high-tech sector may lead to a decrease in demand, and even harm to some of the Company's customers in this field of activity, and consequently harm the results of the Company's activity.

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

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

- Focusing on large and financially stable suppliers- In light of the complexity of the services in the company's field of activity and their importance, among other things, to the improvement of business and/or to the business continuity of the customers, there is a built-in preference for large suppliers with proven performance and high financial stability, such as the Company.
- Mergers and acquisitions - some of the trends detailed above lead to a proliferation of mergers and acquisitions of medium and small IT companies by large companies with financial means. The Company's leading position, its financial strength and financial balances, as well as the reputation and the rich experience that the Company has in the field of mergers and acquisitions of IT companies, may create opportunities for the Company to acquire companies operating in complementary fields, tangential to the Company's fields of activity, at economic prices, relative to the potential inherent in them, thus expanding the range of services offered by the Company and its customer base.
- Offshore and Nearshore activity - the constant need for continued efficiency and operational savings in large organizations on the one hand, and the lack of technological personnel on the other, create an incentive for inexpensive and economical solutions. This trend may lead to the expansion of the Company's business in these areas as part of the "Matrix Offshore and R&D Services" activity and in Babcom. [For more details, see section 7.1.1(b) of the report].

- Clients' tendency to replace professional services (PS) in the IT field, based on time and materials (T&M) pricing, for engagements based on managed services, which are based on defined product specifications (SOW) and areas, including outsourcing operational areas from the organization to suppliers interns. This trend accelerates during periods of slowdown and cost-cutting. The aforementioned trend has opposite effects on the company's business - on the one hand, it reduces the demand for the company's T&M-based professional services, on the other hand, it creates demand for alternative managed services provided by the company.

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

6.6 The US market

a. The same global technological trends detailed in section 6.3 above are also relevant, particularly to the American market.

b. The US IT market is directly affected by economic developments in the US. During the year 2023, the American economy showed a trend of recovery, including a slowdown in inflation rates and a stabilization in interest rates. In terms of GDP growth data, the US GDP for 2023 increased by 2.5% annually compared to 1.9% in 2022 and 5.8% in 2021.

c. Forrester expects a 4.5% increase in the American market in 2023 (compared to 4% at a global level) and another 5.4% increase in 2024 (compared to 6.8% at a global level).

   The report predicts a 9.5% increase in software spending in the American market in 2023 and 10.6% in 2024. The report also predicts a 4.8% increase in spending on IT services in 2023 and 7.3% in 2024. The same report also predicts that the expected increase in IT spending In the financial sector it is more significant than all other sectors. This is an expectation of a 9% increase in IT expenses for 2023 and 8.9% for 2024.

d. The demand for the Company's services in the field of GRC is affected by the regulatory requirements and action and reporting guidelines in the American financial market.

   Following the tensions in connection with the Russia-Ukraine war and the Chinese threat, in addition to the volatility of the capital market, the government tends to more regulation in the financial sector, which produces new requirements in the field of the GRC, which were reflected in 2022 in the further investment of resources by the financial entities in projects and systems to prevent money laundering and fraud prevention.

   In addition, the increase in Digital, including the massive increase in transactions and digital payments, the strengthening of Fintech, and broader Cyber effects on organizations, create a growing need for regulation in the field of Fraud prevention, which requires the implementation of appropriate systems. The growth in Crypto and its institutionalization trend also reinforces the need for regulation and control in the world of Money Laundering Prevention.

The said regulations and reporting requirements usually have a positive effect on the demand for the company's services, because they create a need to change processes and structures that require adjustments in specific IT systems and solutions, usually within a limited and short period.

e. Similar to what was detailed regarding the software market in Israel (see section 6.2.1c above), a shortage of technological labor is also evident in the US, where the slowdown in the high-tech sector has less of an effect on the Company's employees in the technological-financial sector, but some relief is expected for the company in recruiting and retaining employees. The shortage and competition in the technological workforce and related professions in the US may have adverse effects on the Company's business. On the one hand, the lack of labor makes it difficult for the Company to meet the demand for its services in technological fields and obliges the Company to raise wages in its operations in the US, in order to preserve the existing labor force in the company and to recruit new employees. Therefore, the continuation of the labor shortage in the US may have a negative impact on the results of the company's activities in the US. On the other hand, the possibility to work fully from home, and from anywhere with each client, allowed the Company to reduce its office space, as well as to increase the Company's ability to employ workers from Israel and Eastern Europe in the provision of services vis-a-vis the United States, although this does not necessarily mean significant savings in employee costs (in everything involving personnel from Israel). This provides an additional channel for fulfilling the requirements for quality personnel in the US which may lead to an increase in demand for the services provided by the Company.

f. The increase in the exchange rate of the dollar in relation to the shekel in 2023 had a positive impact on the results of the Company's activity in the field of Information technology solutions and services in the USA, since the transactions in this sector, by their very nature, are in dollars, while the results of the Company's activity are presented in NIS.

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

6.7 Cyber

The escalation of Cyber threats, especially in the midst of a period of geopolitical tension, especially after the outbreak of the "Iron SwordsWar", led to an increase in the scope of the events, the threats, their intensity, the capabilities of the attackers and the level of complexity of the attacks, and in accordance with the increase in exposure to risks from the cyberspace, with an emphasis on Israeli entities. The materialization of a significant cyber threat, toward the main systems used by the Company in the day-to-day management of its business, in the provision of its services to its customers, or towards third-party information stored in them, could have a negative impact on the company's activities, on its ability to provide services to its customers, lead to damage to the Company's reputation, reveal subject the group to legal and regulatory proceedings, and may harm the Company's existing and/or future engagements and cause significant economic damage to the company. On the other hand, the concerns about Cyber threats have a positive effect on the Group's customers' awareness of the need to receive information security solutions that the Company offers to its customers, with an emphasis on managed Cyber solutions and services.

The Company, which, among other things, specializes and provides its customers with services in the field of Information security, invests a lot of resources and efforts and works constantly to strengthen the protection of its systems against such harm, among other things by implementing technological solutions in its systems, implementing methodologies and procedures to deal with information security incidents and other Cyber risks, implementing protection mechanisms such as remote identification, compliance with information security standards, updating and reviewing the company's policy on the subject, practices, training and raising employee awareness on the subject and conducting audits on Information security and Cyber issues.

The Company's Board of Directors receives reviews from time to time about the Company's preparation to deal with cyber threats and about the operations that are taking place in the Company to deal with these threats. The Company has a management body responsible for information security and protection against Cyber threats as well as a CISO, and under their supervision an Information security department which consists of a professional CA in the field of Information security, who regularly deals with protection against Cyber threats. The Information security department, in cooperation with external parties, performs an ongoing assessment of the level of the protection of the network and the Company's information assets, by conducting information security surveys from various disciplines, including: risk surveys, penetration tests, vulnerability surveys, questionnaire surveys, internal audits, etc. There is also a response team consisting of professional and management resources in the Company. In addition to implementing relevant methodologies, the Company conducts simulations of offensive Cyber events against its systems and improves its defenses according to their findings. In addition to using the Company's existing factors in this area, the Company engaged with experts in fields complementary to the Company's existing areas of expertise.

In the Company's estimation, the continuation of technological developments, the accelerated transition of organizations to digital, the global geopolitical tensions, including the "Iron Swords War" and the Russia-Ukraine war, are expected to lead to the fact that the trends in the Cyber field in 2024 will be similar to those detailed above and perhaps even more challenging and complex.

According to Gartner, in 2023, an increase of 14.2% is expected in the global Cyber expenses, in the world market, and an additional increase of 14.3% in the cyber field in 2024. According to the same study, two subfields with the most significant growth in the Cyber world in 2024 are Cloud Security and Data Privacy, both with close to 25% expected growth.

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

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

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

For the rates of contribution (in percentages) of this area of activity to the Company's revenues and profit from ordinary operations for the years 2022 and 2023 in Israel, see section 1.2.4 of the Report of the Board of Directors.

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

Set forth below are the services that the Company provides to its customers in the field of information technology solutions and services, consulting and management in Israel, and the developments in the field which impacted the Company's operating results in this area of activity in 2023, as well as details of expected developments in this area of activity that may significantly impact these results in the short and medium term:

a. Integration projects

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

As an example of this: the establishment of a comprehensive system for the Central Bureau of Statistics for the supply and operation of a central storage system, accessibility of information and management of work procedures; security projects, which the company carries out for the Ministry of Defense and for security agencies abroad, etc.; the "Smart Campus" project for the Discount Group, as part of the project, Matrix established the computer systems for the management and integration of the smart systems in the new campus of the Discount Group, including the catering systems, parking management, etc.; a project of a leading bank, for the complete renewal of all the bank's digital channels; a project to establish an end-to-end computing solution to support the establishment of an insurance company's consumer credit activity, including a managed service of the project's infrastructure and the core software that enables this activity; a project to establish the next generation of the digital system of a leading bank, based on a new and advanced technological infrastructure.

The company also carries out several significant modernization projects, including one of the largest banks in Israel and a project at a financial infrastructure company as part of the process of replacing core systems.

b. Offshore/Nearshore

Supply of software development services and software testing services by local or foreign employees, at lower rates than usual in Israel. The Company sees in this business potential and is working to promote its business in the field of Offshore and Nearshore under a unified brand called Matrix R&D and Offshore Services ("**Matrix R&D and Offshore Services**") abroad and under the brand "**Talpiot**" in Israel.

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

The Talpiot project - a training and placement track for women in the ultra-orthodox sector, within which the Company establishes software development and testing centers, which employ female workers who have been trained by the Company as stated. The centers are adapted to the needs of the target population of that center (hours of operation, work environment, supportive environment, etc.), and therefore, the demand to work within them among the target population is high. The added value of the Talpiot project (in addition to being, in the Company's view, a national-Zionist project of the first order) is based on the availability of talents with knowledge and experience, such as graduates of a training course for academics and engineers, in the pool of candidates to join this project, which enables the rapid establishment of software development, automation and QA teams, while building a long-term relationship with the customers, based on the loyalty and quality capabilities of the employees in the project.

In addition, the Company operates, under the Matrix R&D and Offshore services brand, in the provision of offshore services through the Company's subsidiaries in Eastern Europe (mainly in Bulgaria and Macedonia), intended for a target population of customers in Israel (mainly in the high-tech sector and start-ups) and potentially also to customers abroad.

c. Cloud computing solutions

The Company's clients are global companies and hi-tech companies, enterprise organizations, government bodies and public sector clients, academia, telecom, finance, health, industry, and more.

In Israel, continued growth is expected, among other things, following the government's "Nimbus Project", which aims, among other things, to direct more government activity to cloud environments, through the use of the services of international cloud providers in Israel. This project generates momentum for entering the cloud in the governmental, public, and security sectors. The business sector is also directing more and more activity to the cloud, and, likely, this trend will even increase in view of the establishment of the local centers of Amazon, Google, and Microsoft and the beginning of significant activity in the government in preparation for the transition to the Cloud.

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

d. Solutions in the field of BI and Big Data

"MatrixDnA" is the data arm of the Group. MatrixDnA specializes in the development and implementation of complex data projects customized to the needs of customers, based on the most advanced technologies in the world.

The Company employs hundreds of leading experts and provides a wide range of solutions, services, and specializations in diverse BI fields and in the fields of Big Data, AI, and Machine Learning.

In addition, the Company specializes in providing consulting services for strategic data labeling and data architecture for organizations and their transformation into a Data-Driven Organization. According to Gartner, in 2024, the Data area is expected to grow by 14%.

e. Professional services of experts and consultants

As part of this activity, the Company puts professional consultants and experts at the service of its customers, in all the variety of technological professions and information systems. Most consultants operate from the client's offices, with the clients being responsible for the operation and management of the employees. The company provides these professional services to a wide variety of clients in all sectors of the economy. To the best of the company's knowledge, the main advantage that customers see in this contract structure, is the increase in administrative flexibility when it comes to employing employees in varying amounts, according to the customer's needs from time to time, as well as the framework and professional support that the company provides to its employees and customers.

f. Software testing

The Company operates, through "Matrix Testing and Automation", in the field of software testing, QA, and automation of software testing, while specializing in providing manual and automatic testing services in a variety of technologies and sectors and in developing unique testing methods, using a variety of solutions and tools suitable for different environments, in a variety of business models adapted to the needs of the customers, including by consultants at the customer's site, through full responsibility for a managed service project, in the performance of the activity from a remote site in a Nearshore or Offshore model, or in an combined model, as well as in the provision of services based on automation environments for testing, including the representation of several leading software products in this area.

g. Solutions in the field of cyber and information security

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

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

In addition, the Company operates a SOC system (Security operation system) that monitors dozens of customers both in Israel and internationally, including providing IRT (Immediate Response team), which at the time of a critical incident, the team is called up in a short time or connects remotely, if possible, to provide an answer and response. In recent years, 2Bsecure has handled dozens of organizations that have been attacked. The Company also provides solutions to C.S.I. (Critical State Infrastructures).

Recently, as part of the description of the increasing threats, as well as the increasing level of sophistication, the SOC system of 2Bsecure was used in AI (artificial intelligence) solutions, in order to provide an improved and advanced response to these worlds.

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

h. Digital strategy, customer experience, and mobile

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

In addition, the Company provides advanced solutions in digital issues, hyper-automation, and modernization of systems, including automation of RPA-based processes, modernization of core systems, development of systems and digital solutions based on Lowcode tools, development of portals, websites, e-commerce websites and business activity and internet services for organizations in the banking and finance sectors, health, government, security, trade and retail, media and more.

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

The Company has developed, through the center of excellence for the mobile field, and a big mobile development and implementation group of experts, a wide variety of applications in business, commercial fields, and various applications, with an emphasis on corporate applications. The connection between the Mobile unit and other development units in the company (such as BI/DnA, Cloud, etc.) enables the provision of a broader development and solution umbrella, while developing mobile applications based on an optimal customer experience in combination with the use of cloud and analysis services. For example: a project in which the Company developed the sales website and the personal area of the Stock Exchange.

i. ERP

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

The Company is Israel's leading implementer of "Priority" solutions in Israel, where all activity is carried out through the subsidiary, Medatech, which provides service to over 1,500 customers in a wide variety of activity and expertise sectors. In order to meet the unique requirements of businesses in various activity sectors, Medatech has developed unique modules that expand the functionality built into "Priority" solutions. The effective support of Medatech in the various sectors and applications relies on dedicated vertical solutions, the result of Medatech's implementation (on the "Priority" software infrastructure) such as: the real estate market, the industrial sector (plastics, chemistry, hard metals, pharmaceuticals, medical devices, etc.), high-tech, distribution, customer service, project management, etc. Medatech provides an end-to-end solution for all the activities of managing the information systems at the customer sites that work with "Priority" solutions. The Company provides and supports various types of Expert Systems (MES, BI, WEB applications, etc.) and provides, through the Company Medatech's subsidiary, Medatech Systems, hosting cloud services as well as technical support for the existing infrastructure at customer sites (databases, operating systems, networks, etc.).

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

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

j. CRM

The Company specializes in CRM applications, mainly those based on Dynamics CRM solutions from Microsoft and the Salesforce platform. The Company also specializes in implementing migration projects around older CRM solutions and systems to new platforms, as well as migration projects to cloud environments. In 2023, the Company completed a project to implement Salesforce in the CRM system to manage the processes of Bank Hapoalim's mortgage system. At the end of 2023, Zim launched a service, sales, and marketing system based on Microsoft Dynamics 365 in the Cloud, which the Company developed together with Microsoft while providing a response to Zim's global activity.

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

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

Matrix Defense has been designated as a "Defense Industry" guided by the Director of Security of the Defense Establishment (Malmab), following the identification of the Company by the defense system as having a significant volume of activity in the defense field and its involvement in important projects for the defense system.

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

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

The division has one of the largest and most diverse security consulting bodies in Israel, which combines a deep operational understanding with technology - Process Initiation, Strategic consulting, business plans in the world of content, market research and competitive intelligence, concept building, system planning and characterization, performance research capabilities as one of the leaders in Israel, and more. In August 2023, the Company entered into an agreement valued at approximately 40 million US dollars, under which it will develop and provide an advanced AI system on Cloud infrastructure to a foreign country. The project will include data and analytics infrastructures and unique Cyber protection capabilities and is expected to last for approximately two and a half years.

The Iron Swords War presented Matrix Defense with a double challenge, when on the one hand Matrix Defense faced a massive recruitment of reservists from among its employees [about a third], and on the other hand, it was required to provide an urgent response and adapt its activities to the operational and security needs of its customers in the spirit of the times, while specifically harnessing the needs of the Ministry of Defense and the security industries, urgent deployment of systems, working around the clock 24/7 and support for customer systems, which led to an increase in the company's activity in the field.

l. Artificial Intelligence and Machine Learning applications

According to Gartner, the investments in AI in 2023 and 2024 will be about 8% of the IT investments in the world, most of them in traditional AI. In 2024, most organizations will invest a great deal of thought and focus in the integration of AI in organizational activities, but the impact of AI and GenAI will be significantly reflected in IT budgets starting in 2027.

The Center of Exellence in the fields of "artificial intelligence" (AI) and "Deep learning" (Deep Learning) was established by Matrix as part of the "Matrix Defense" activity. In this framework, solutions were implemented for the Defence sector, which is a pioneer and a significant and leading factor in the use of AI and Deep Learning technologies.

The Center of Exellence also provides "civilian" solutions that include, among others, solutions in the fields of text and automation, video, detection of cyber anomalies in large networks, automatic mapping, and robotics (autonomous vehicles and drones).

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

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

m. Call Center and Operational Back Office services

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

n. Management consulting, and multidisciplinary engineering and project consulting and infrastructure project management

The Company operates in this field through the subsidiary, Aviv. The activity in these areas includes, inter alia, management consulting for organizations (from in-depth and cross-organizational strategic implementation to tactical applications, from operational efficiency to human resource development), project management and administration services, planning management services for environmental projects, master plans, architectural planning and programs. Aviv's activity also includes comprehensive multidisciplinary engineering consulting services, from the phase of strategy formulation to the phases of performance and implementation of the change, including the management of complex projects, as well as large-scale infrastructure projects, project management and projects in the field of planning and environmental quality and in the field of transportation.

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

In August 2023, Dana Engineering won the tender of Neta - Urban Transportation Routes Ltd., for the planning, planning management, and execution management of the M1 line of the Tel Aviv Metropolitan –(the Metro), which is estimated to last about 13 years. For more details, see the Company's immediate report of August 21, 2023 (reference: 2023-01-096171).

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

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

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

The solutions and services of information technology, consulting, and management in Israel, which the company provides to its customers, include providing solutions as detailed below, all according to the specific needs of each customer.
The Company's activity in the field of information technology solutions and services, consulting, and management in Israel is an ongoing activity over time. The information technology solutions and services, consulting, and management provided by the Company to its customers in Israel are mainly provided within the framework of two types of engagement: [a] agreements to perform work at a fixed price, in which the scope of the work and the final product, the delivery date, the total price and the terms of payment are defined; [b] agreements to perform work for payment according to "time & material". Most of the Company's revenues derive from the agreements priced according to time and materials, in which the contractual price is paid according to the actual working hours of the Company's employees, subject to a price list (hourly, daily, monthly, etc.) established between the Company and the customer, although the share of the agreements at "fixed price" from the Company's revenues are on a constant upward trend. Also, some of the services in this area are provided in a "managed

services" model, according to which the proceeds are determined based on products delivered in a predefined work specification (SOW - Statement of Work). Regardless of the contract model, some services are provided by the Company in a cloud environment.

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

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

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

7.1.3 Customers

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

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

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

For details about the Backlog, see section 8 below.

7.1.4 Marketing and Sales

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

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

In addition to the ongoing sales activities, the Company initiates additional marketing activities, through advertising in the press, participation in exhibitions , creation of awareness among its employees to promote business opportunities, mailings, and organizing virtual conferences (webinars) and seminars, as well as digital campaigns.

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

7.1.5 Competition

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

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

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

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

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

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

7.1.6 **Intangible assets**

See note 9 to the financial statements.

7.2 Information technology solutions and services in the United States

For the rates of contribution (in percentages) of this field of activity to the Company's revenues and profit from ordinary activity for 2022 and 2023 in the USA, see section 1.2.4 of the Report of the Board of Directors.

7.2.1 General; Types of services in the field of activity

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

a. The Company provides its customers with Expert solutions and services in the field of GRC(Governmental, Risk & Compliance bank payment services (Payment Services) as well as specialized advisory services in the field of compliance with financial regulation and regulation implementation and operation services as well as 24/7 global support services. In addition, the Company works to provide automated robotic processing (RPA) based solutions in these areas and AI and Data based services through significant collaborations with the leading companies in this field - DataBricks, Snowflakes, and more.
The Company has offices engaged in the provision of GRC services in the USA, Canada, London, and Israel.
Most of the Company's customers in the field of GRC are big financial entities abroad.

b. MATRIX US HOLDING LLC ("Matrix US") performs projects and provides global services through personnel from across the Matrix Group, as a gateway to a business model for exporting the Company's services and products in the USA. During 2023, the Company carried out several significant projects of software development, sale of software licenses, cloud architecture, and other services in this model.

c. IT services for the Healthcare sector - the activity in this field is focused on services of Clinical Support Electronic Medical Records (EMR) and IT Help Desk and Desktop Support services, specialists for the healthcare sector in the USA. The openness of healthcare organizations to promote Digital Healthcare at the same time as the need to carry out a process of migrating to the cloud and increasing the level of service translates into increased budgets and project approvals which consituted a continued base for growth in 2024.

d. XTIVIA
Wholly one subsidiary of Matrix, provides specialized technological solutions and services in the field of information technologies, provided by the subsidiary, Xtivia, to a wide range of customers in the US, mainly in the following areas:
Development of complex portals, mainly based on the Open-Source infrastructure of Liferay , as well as on the infrastructures of other manufacturers like Contentful and Strapi, that combine infrastructures of other providers, including OpenShift, Dell Boomi, and Kubernetes, in integration with DevOps services in this area.

The CRM division of Xtivia provides strategy, developing, and implementionof a variety of CRM systems technologies, with an emphasis on Salesforce and Microsoft solutions, leveraging these platforms to manage and analyze customer interactions, improve business relationships, and customer retention, and drive sales growth.

Enterprise Information Management (EIM) division- Provide expertise in the implementation of products such as DataBricks, Informatica, TIBCO, and Snowflake, which form the basis of customers' data governance solutions, ensuring efficient management and optimal utilization of corporate data.

XTIVIA provides comprehensive support for the main databases available on the market using the tools it has developed for them. This support is made possible through remote management tools that it has developed, which enable effective control over its customers' databases. The support model is a combination of remote support (assistance (via Virtual DBA)) and on-site services at the client's site.

Dedicated GovCon365 provides dedicated solutions for suppliers of businesses that provide products and services to government agencies in the US. These solutions leverage the US government (GovCon - Government Contracting), based on Microsoft NAV Dynamics Business Central software, which enable efficient management and development of vertical applications for this field. GovCon365 embeds proprietary solutions in the company's IP platform, that provide a specific response to the unique challenges and requirements of government contractors.

Rightstar, a wholly-owned subsidiary of Xtivia provides implementation, consulting, and support services of BMC and Atlassian products mainly to public-government sector customers in the US. Rightstar has a public and government sector clientele in the US, including those that require high classification and a classified facility. Rightstar offers clients comprehensive solutions tailored to their unique ITSM needs.

In addition,Xtivia markets software products such as: IBM, Atlassian, , Liferay, BMC, Microsoft, Oracle, InforBoomi and more. The software products are marketed to a wide variety of customers, from the business sector to high-profile government entities such as the US government and the Ministry of Defense, as well as as part of transactions with Israel`s Ministry of Defense procurement mission in the US.

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

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

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

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

Xtivia and its subsidiaries offer a wide range of services, including consulting, design, development, testing, and implementation services. The Company has collaborations with a wide range of technology providers, focusing with special emphasis on open-source solutions.

Xtivia implements, through its subsidiaries, solutions from a number of technological solution providers in its areas of expertise. The Company's customers communicate directly with the technological solution providers in its areas of expertise, or through Xtivia itself, and interact when it acts as a distributor, and the Company provides its customers with consulting, development, and implementation services based on the solutions of those providers.

The software solutions and services provided by the subsidiaries to their customers are mainly provided within the framework of license agreements for the performance of work for a fee with billing according to "Time & Material". As part of these agreements, the price is paid according to the actual working hours of the Company's employees subject to the price list established between the Company and the customer. Sometimes the services are provided subject to” Fixed Price” agreements.

The Company carries out projects and provides global services in the USA, through its subsidiary Matrix US, using personnel from across the Matrix Group, based on the combination of a local presence in the USA of sales and project managers, with a high and fast execution ability in the required areas, through the Group's companies in Israel. Accordingly, the Company developed an integrated practice of hybrid sales (from Israel and the USA), with local project management (American) and remote execution management (Israel).

7.2.3 Customers

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

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

For details regarding the Backlog, see section 8 **below.**

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

7.2.4 Marketing and Sales

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

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

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

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

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

7.2.5 Competition

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

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

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

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

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

7.2.6 Intangible assets

See note 9 to the financial statements.

7.3 Sales, marketing, and support of software products

For the rates of contribution (in percentages) of this field of activity to the Company's revenues and profit from ordinary activity in 2022 and 2023, see section 1.2.4 of the Report of the Board of Directors.

7.3.1 General

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

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

Main trends during the period of the Report:

a. Following the trend of building large data centers in Israel by international bodies and the establishment of the governmental and public cloud infrastructure ("Nimbus"), the Company works in cooperation with the manufacturers represented by it, for sales services also through the Public Cloud Market Place.
The Company follows the policies of the software manufacturers that it represents as well as other software manufacturers that it will add to the portfolio of products represented by it.
b. The transition of software manufacturers from a licensing model of Perpetual licensing and annual maintenance to a model of annual subscriptions - Subscription, which leads to changes in the revenue flow, spread uniformly over time, and to a different work model with customers. The transition to the subscription model results in a reduction of the Company's current revenues from software products in the short term, and on the other hand - in the medium-long term - expands the base of the Company's recurring revenues.
c. Open source solutions - The company is bound by an agreement to market the software solutions of Red-Hat (purchased by IBM), which is considered the leading commercial entity in the world in the field of open source solutions. In accordance with this trend, the Company continues to expand its offer of solutions based on open source.
d. The trend of end-to-end automatic digital management - the digital acceleration and availability-flexibility needs (availability and flexibility) oblige the organizations to respond to employees in the form of advanced and smart systems that do not depend on a specific time or place and can be activated in a variety of channels (including the mobile phone), including LMS learning systems and infrastructural applications for daily operations (attendance, transportation, measurement system).

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

7.3.2 Products and Services

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

The Company has agreements with a large number of software manufacturers from abroad for marketing (in most cases not exclusively) their products in Israel, as well as with several software manufacturers from Israel. In addition, and to keep the product line that it markets up to date, the Company operates a business development team which identifies new trends and products in the local and international markets in order to contract with new suppliers to expand the product basket offered by the Company.

In some cases, the Company is the only entity (even if not based on an exclusive distribution agreement with the supplier) that represents and markets the said software products in Israel, and in some cases, there are other entities that sell and distribute those products, including, in some cases, by local branches in Israel of the software manufacturers. The marketing rights are usually renewed every year or every period. According to the Company's assessment, in light of its past experience, most of the aforementioned agreements have been renewed (except in cases where the software supplier has been purchased by another company).

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

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

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

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

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

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

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

7.3.3 Customers

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

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

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

For details regarding the Backlog, see section 8 below.

7.3.4 Sales and Marketing

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

The current marketing and sales activity is based on sales personnel who initiate marketing activities of software products, through participation in exhibitions and organization of conferences and seminars.

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

7.3.5 Competition

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

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

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

7.3.6 Suppliers

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

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

7.3.7 Intangible assets

See note 9 to the financial statements.

7.4 Cloud infrastructure and computing

For the rates of contribution (in percentages) of this field of activity to the Company's revenues and profit from ordinary activity in 2022 and 2023, see section 1.2.4 of the Report of the Board of Directors.

7.4.1 General

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

a. Cloud services:

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

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

[3] Sales and marketing of personal computers, stationary and laptops, servers, workstations, tablets, storage systems, backup, Disaster recovery plan (DRP), Business continuity plan (BCP), and peripheral and related equipment including monitors, printers, copiers, cases and communication cabinets, printing centers and data centers. The Company`s activity in PC, servers, and storage systems works with the major manufacturers as business partners, including HP, Lenovo, Dell, EMC, and in the fields of Disaster recovery plan (DRP), Business continuity plan (BCP) common work environments mainly with VMware, HP, EMC.

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

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

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

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

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

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

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

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

[12] RDT and Asio-Control and automation solutions and systems, test and measurement equipment (TME), advanced technological solutions for testing data communication, EMC, and Radio frequency (RF), through the subsidiary RDT Equipment and Systems 1993 Ltd., which was purchased by the Company in 2022 and serves, inter alia, as a representative in Israel of dozens of international companies in the aforementioned fields.

b. The solutions offered by the Company in this field of activity also include value-added services in the fields of: cloud services (including consulting, architecture, and implementation support), end infrastructures, data communication, local and spatial networks, multimedia solutions, the full range of services in the Microsoft environment, storage and backup, security information, links and comprehensive solutions for the Internet environment.

c. The added-value solutions in the field of infrastructure constitute another layer in the basket of products, services, and solutions that the Company offers its customers, a fact that allows it to provide a comprehensive solution in the field of IT. The existence of the field of organizational software infrastructure and the field of computing and communication under one roof may improve the Company's competitiveness to carry out comprehensive projects in the field of IT.

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

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

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

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

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

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

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

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

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

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

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

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

7.4.3 Customers

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

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

For details regarding the Backlog, see section 8 below.

7.4.4 Marketing and Distribution

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

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

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

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

7.4.5 Competition

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

Computers and peripherals - In Israel, there are several other distributors of branded systems with the same system manufacturers that the Company is engaged in marketing, the main ones of which, to the best of the company's knowledge, are: One, Malam-Team, and Emet Computers, as well as several small-medium companies.

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

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

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

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

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

7.4.6 Suppliers

A significant part of the Company's activity in this field is based on a number of suppliers whose products the Company serves as an authorized supplier(not exclusive).

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

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

If the Company's contract with some of these suppliers is terminated, or if the terms of the contract with those suppliers change substantially, or if the demand for the said suppliers' products decreases significantly, or if additional distributors are appointed to those that exist today, its revenues from the said areas of activity will be affected.

7.4.7 Inventories

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

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

7.4.8 Intangible assets

See note 9 to the financial statements.

7.5 Training and Implementation

For the rates of contribution (in percentages) of this field of activity to the Company's revenues and profit from ordinary activity in 2022 and 2023 see section 1.2.4 of the Report of the Board of Directors.

7.5.1 General

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

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

John Bryce performs various online learning activities and conferences in an online or hybrid online method of working (so that part of the class learns in the classroom and part from home). In addition, John Bryce has developed training and self-learning training tools in the technological field that are sold to private and corporate customers.

The activity of the Training and implementation sector (which constitutes less than 4% of the scope of the Company's activity) was reduced during the war, among other things, due to the difficulty of implementing courses subject to the limitations of the Home Front Command.

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

The training activity includes the operation of training centers in the field of hi-tech[3] and soft skills. Sometimes, some of the services are provided on the customers' websites.

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

7.5.3 Customers

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

For details regarding the Backlog, see section 8 below.

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

7.5.4 Sales and Marketing

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

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

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

7.5.5 Competition

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

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

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

7.5.6 Intangible assets

See note 9 to the financial statements.

8. Backlog

The whole company (on a consolidated basis)

Period of recognition of expected income	Backlog as at December 31, 2023 (NIS in thousands)
First quarter 2024	1,248,907
Second quarter 2024	1,091,401
Third quarter 2024	1,107,737
Fourth quarter 2024	1,103,598
Total 2024	**4,551,643**
From 2025	2,331,959
Total backlog as of December 31, 2023	**6,883,602**

As of December 31, 2022, the Company's Backlog at NIS 5,776 thousand, of which NIS 4,363 thousand are for 2023 and the balance for 2024 and beyond.

(1) **Main explanations for changes in the backlog in the coming year, in relation to the corresponding figure last year**

The main increase is attributed to the increase in the activity volumes of the information technology solutions and services sector, consulting and management in Israel, the information technology solutions and services sector in the USA, and the Cloud and computing infrastructure sector. This increase was partly offset by a decrease in the backlog for the coming year in the Training and Implementation sector, which reflects the decrease in demand for high-tech workers as well as the consequences of the war on the activity of this sector.

The expected revenues included in the backlog are according to the accounting rules for revenue recognition. Revenues for certain transactions in the Software products sector and in the Cloud and computing infrastructure sector are presented within the backlog on a net basis. In the backlog for 2024, there is an increase in the weight of the expected revenues presented on a net basis, in relation to the corresponding figure. If not for the aforementioned, the backlog for 2024 would have increased by an additional NIS 200 million.

(2) **Main explanations for changes in the forward backlog, in relation to the corresponding figure last year**

The bulk of the increase in the backlog is attributed to the Information technology solutions and services sector, consulting, and management in Israel, of which approximately NIS 400 million is attributed to the Company's share of the metro project won by Dana Engineering (for details, see section 1.1.3 of the Board of directors' report).

The following are the balances of the Backlog according to area of activity:

Information technology solutions and services, consulting and management in Israel

Period of recognition of expected income	Backlog as at December 31, 2023 (NIS in thousands)
First quarter 2024	684,260
Second quarter 2024	651,175
Third quarter 2024	676,403
Fourth quarter 2024	663,429
Total 2024	**2,675,267**
From 2025	1,584,466
Total	**4,259,733**

Information technology solutions and services in the USA

Period of recognition of expected income	Backlog as at December 31, 2023 (NIS in thousands)
First quarter 2024	108,622
Second quarter 2024	103,762
Third quarter 2024	104,292
Fourth quarter 2024	103,284
Total 2024	**419,960**
From 2025	8,103
Total	**428,063**

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

Period of recognition of expected income	Backlog as at December 31, 2023
First quarter 2024	89,556
Second quarter 2024	53,257
Third quarter 2024	44,744
Fourth quarter 2024	49,192
Total 2024	**236,749**
From 2025	70,974
Total	**307,723**

Cloud and computing infrastructures

Period of recognition of expected income	Backlog as at December 31, 2023
First quarter 2024	336,417
Second quarter 2024	260,339
Third quarter 2024	262,256
Fourth quarter 2024	268,731
Total 2024	**1,127,743**
From 2025	404,415
Total	**1,532,158**

Training and implementation (NIS in thousands)

Period of recognition of expected income	Backlog as at December 31, 2023
First quarter 2024	30,052
Second quarter 2024	22,867
Third quarter 2024	20,042
Fourth quarter 2024	18,963
Total 2024	**91,924**
From 2025	264,000
Total	**355,924**

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

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

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

9. Seasonality

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

Distribution of quarterly standard hours in Israel for the years 2023 and 2024 as of the date of the Report:

	Quarter IV	Quarter III	Quarter II	Quarter I
2023	26.1%	24.6%	23.7%	25.6%
2024	24.6%	26.3%	23.6%	25.5%

The third and fourth quarter in 2023 were the weakest in terms of seasonality and standard hours, due to the fact that most of the Jewish New Year holidays fell in the fourth quarter, while in the corresponding period in 2022, the holidays all fell in the fourth quarter.

In 2024, seasonality is expected to be normal, such that the second and fourth quarters are affected by seasonality (mainly due to the holidays), while the first and second quarter are expected to be weaker in terms of standard hours.

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

The distribution of the Company's sales by quarter in 2022 and 2023 (in percentages) is as follows:

	Quarter IV	Quarter III	Quarter II	Quarter I
2023	26.1%	24.3%	24.9%	24.7%
2024	25.2%	25.5%	24.6%	24.7%

What is stated in this section 9 regarding the expected seasonality in 2024, is forward-looking information, as defined in the Securities Law, based on management's estimates and past experience and the data it currently has. The information may not materialize, in whole or in part, or materialize differently, including materially differently than expected, among other things, as a result of market competition and/or as a result of another or additional effect on seasonality that is not related to the dates of the holidays or that the effect of the holidays will not be as expected and/or as a result of the realization of any or some of the risk factors listed in section 19 of the Report.

10. Fixed assets, land and facilities

As of December 31, 2023, the Company leases offices throughout Israel (mainly in Herzliya, Tel-Aviv, Jerusalem, Modi'in, Tefen, and Lod) with a total area of approximately 66,000 square meters. The lease agreements are for different periods, when, in most cases, the Company is given options to extend the lease period. The Company aims to enter into lease agreements for lease periods of 3-4 years, while maintaining flexibility during the period of the lease. The Company also leases office space outside of Israel (in Bulgaria, Macedonia, Hungary, India, USA, England) with a total area of approx. -4,490 sq. mtrs.

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

Details regarding material lease agreements of the Company, including lease agreement for the Company`s new building in Kfar-Saba, see Note 16c in the Financial Statements.

Details regarding fixed assets, real estate, and facilities as of December 31, 2023, are as follows:

Type of property right	Area (sq. mtrs.)	Use
Rental (up to three years)	14,508	Development
	17,849	Management and sales
	6,955	Warehouse
	5,496	Training
	11,369	Call Center
Rental (more than three years)	1,948	Development
	523	Management and sales
	2,750	Warehouse
	1,588	Training
	2,980	Call Center
Rental (abroad)	4,491	Management, sales, development, Call Center

Most of the payments specified in the aforementioned rental agreements in Israel are in NIS and are linked to the Consumer Price Index. For guarantees for the payments for lease agreements see Note 13, Finance (below).

11.Human capital

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

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

	Number of employees as of 31.12.23	Number of employees as of 31.12.22
Management and administration	260	260
Information technology solutions and services, consulting and management in Israel	8,672	8,543
Information technology solutions and services in the United States	636	652
Sales, marketing and support of software products	187	157
Cloud infrastructure and computing	914	806
Training and implementation	531	782
Total	**11,200**	**11,200**

11.2 Hybrid work policy

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

11.3 Hi-Tech Industry and shortage of technological human resource

In 2023, there was a decrease in the demand of technological human capital following the slowdown in the high-tech sector- see section 6.4 above and section 1.1.2 in the Report of the Board of Directors.

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

11.4 Iron Swords War

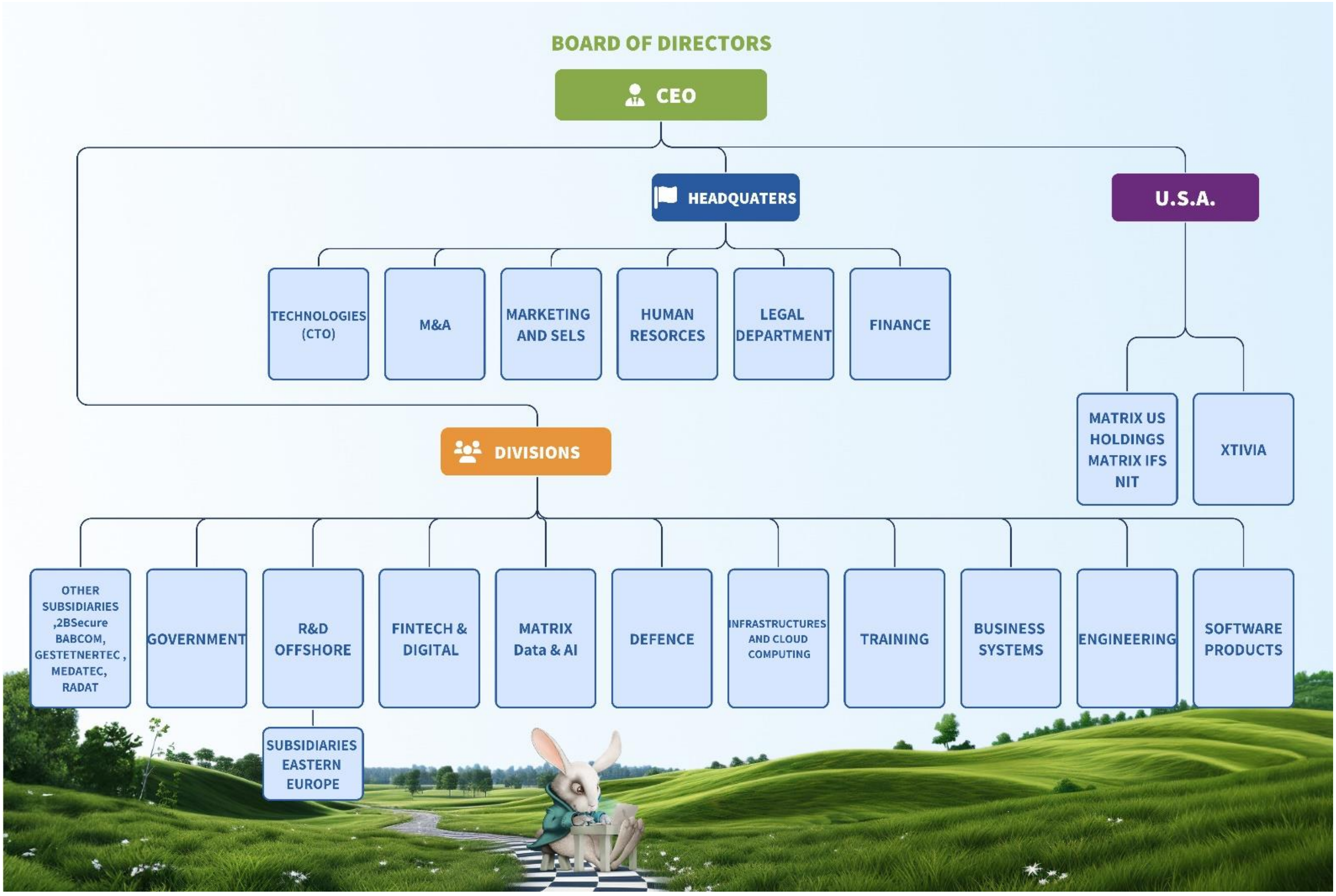
With the outbreak of the Iron Swords War, in the fourth quarter of 2023, the Company faced labor consequences during the war, including employees and families who were evacuated from their homes and a massive reserve mobilization of employees and family members (for more details, see section 1.1.2 of the Board of directors' report). The company established a support system that included contact and visits with the families of the reservists and evacuees by the managers and human resources staff, as well as psychological assistance by professionals. The Company also established a donation and assistance fund for employees and families in need.

11.5 Recruitment, retention, and employee connectedness

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

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

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



11.7 Employment agreements

The Company's employees are employed according to personal employment contracts.
The employees engaged in marketing and sales are entitled to bonuses based on their contribution and sales. In addition, the Company pays some employees bonuses based on unique personal goals that encourage creativity and organizational excellence.
For obligations regarding employee-employer relations, see Note 14 to the financial statements.

11.8 Remuneration policy

On April 3, 2022, the Company adopted an updated remuneration policy for the Company's officers and adjusted the CEO ceiling accordingly. For further details regarding the Company's updated remuneration policy, see Immediate Report published by the Company on April 3, 2022 (ref: 2022-01-042259).
For further details regarding the remuneration for officers, see Regulation 21 of Part D of the Report (additional details about the corporation). The Company grants bonuses to its senior managers in accordance with the provisions of the Company's remuneration policy.
For details regarding share-based payments, see note 18 to the financial statements.

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

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

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

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

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

11.13 Regulation

The Company has internal enforcement programs in the areas of securities laws and economic competition laws and a compliance program and procedures in the field of privacy protection and database security. For further details, see section 15 below.
The Company has a code of ethics according to which the Company conducts its business, while maintaining the principles of the law, morality and business ethics, including equal opportunities and the prevention of discrimination and harassment, prevention of conflict of interest, prevention of bribery and corruption, application of principles of corporate governance and the prohibition of exploitation of opportunities. In addition, the company implemented a comprehensive enforcement plan to prevent bribery and corruption, within which the Company has adopted, among other things, a policy of zero tolerance towards bribery and corruption. The Company maintains procedures in the field of labor law, including for the prevention of sexual harassment and the creation of a safe work environment and a preventive organizational culture. The Company holds regular training courses and lectures for employees in these areas and operates appropriate learning programs.

11.14 ESG

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

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

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

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

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

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

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

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

12.Working capital

12.1. The following sets forth the composition of working capital for December 31, 2022 and 2023 on a consolidated basis in thousands of NIS:

	2023	2022	Change
Current assets	2,618,322	2,579,491	38,831
Current liabilities	(2,240,366)	(2,125,802)	(114,564)
Excess current assets over current liabilities	377,956	453,689	(75,733)
Working capital as a percentage of sales	9.7%	7.2%	

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

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

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

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

12.3. Inventory holding policy

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

12.4. Customer balance and credit days

See note 5 to the financial statements.

12.5. Average credit days (in days)

	2023	*2022
Trade receivables	88	93
Trade payables	57	53

(*) The calculation for the year 2022 has been updated in order to neutralize the effects of the VAT component and the accounting presentation of income(on a gross or net basis).

13. Financing

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

13.2. The financing of the activity is done centrally for all areas of activity. The acquisitions of companies were financed with capital from own sources and medium and long-term credit.

13.3. For details about long-term credit, see note 10.b to the Financial statements.

On September 14, 2022, the Company published a Shelf Offering Report (ref.: 2022-01-117502) in which the Company made an initial public offering for a total of NIS 295,249 thousand par value of Series B debentures (Series B) of the Company. On November 29, 2022, the Company expanded the debenture series by NIS 180,366 thousand par value of the Company's Series B debentures. For further details, see Appendix A to the Report of the Board of Directors and note 19 to the financial statements.

13.4. For details about credit and short-term loans, see Note 10.a to the financial statements.

13.5. Rating

The Company has an issuer rating of Aa3 with a stable rating outlook from March 28, 2023. The Company has a non-marketable Commercial securities ("NAAM") rating of None/NOO P-1.il from March 28, 2023, and a stable Aa3 il rating for Series B debentures from March 28, 2023.

13.6. As of December 31, 2023, and the date of approval of the Report, the Company has credit facilities (unsigned) totaling approximately NIS 1,472 million.

Below are details regarding the Company's credit facilities (in millions of NIS):

	Facility	Utilized as at 31.12.23	Utilized prior to the date of approving the Report (3.3.24)
Credit facilities from financial institutions	1,630	181	263

The signed credit facilities are 500 million NIS and were given for one year.
There is no change in the terms and conditions as of the date of the report.
Credit utilization includes guarantees (mainly performance guarantees) given to customers in the amount of NIS 135.6 million , rent payment guarantees in the amount of NIS 21.1 million and NIS 24 million On Call Loans.
The interest rates are determined when the loans are actually taken, in negotiations between the Company and the financial institution.

13.7. The Company issued non-marketable commercial securities in the amount of NIS 200 million. The interest rate is for an optional cumulative period of up to 5 years(till November, 2024). The NAAM includes a commitment to redeem at the investor's request with advance notice of at least 7 business days advance. The NAAM carries a variable interest rate at the Bank of Israel variable interest rate plus 0.5%.

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

13.8. Financial covenants

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

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

	Financial covenants	31.12.23
Percentage of Credit from banking corporations to Balance sheet (net of cash)	Must not exceed 40%	7.7%
Ratio of Debts of the Group (net of cash) to EBITDA	Must not exceed 3.5	0.53
Shareholders' equity (net of minority interest)	Not less than NIS 275 million	NIS 1,049 million
Balance of Cash and short-term investments	Not less than NIS 50 million	NIS 640 million

Details regarding financial covenants in connection with Series B debentures:

See Appendix A to the Report of the Board of Directors

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

14.Taxation

For details, see note 15 to the financial statements.

15. Limitations and supervision of Matrix activity

15.1. Standardization

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

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

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

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

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

15.2. Supplier recognized by the Ministry of Defense

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

15.3. Privacy protection

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

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

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

16.Legal proceedings

See note 16 b to the Financial statements

17.Goals and business strategy

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

- The first goal is continued growth in Israel in the Company's core business areas, based both on organic growth and local purchases.
- The second goal is the expansion of the Company's activities abroad, particularly in the USA, which the Company sees as a strategic target market, also here based on organic growth of the Company's subsidiaries in the USA, including through global projects, and on additional purchases and "exporting" the Company's capabilities from Israel to other markets in the world and, in particular, to the USA.
- The third goal is expansion into tangential areas of activity that have significant business potential for continued growth in the long term. Naturally, this kind of development is mainly based on acquisitions.

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

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

The Company constantly and closely monitors the innovative technological developments around the world, which are occurring at an accelerated pace, through a continuous and close relationship with the top global technology analyst companies and with the largest software manufacturers in the world, and also learns about technological and applied trends from its largest customers abroad, while focusing on the more essential technologies with the most significant economic potential, as a basis for continued business expansion. In this spirit, the Company continues to take steps to acquire the appropriate knowledge in additional innovative technologies in the Company (which, in some cases, is even reflected in the establishment of new Centers of Excellence, in accordance with technological developments around the world), while, at the same time, building business relationships with the world's leading suppliers in those innovative fields.

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

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

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

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

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

In addition, the Company intends to continue to develop a range of services for its customers in the field of Digital Transformation solutions, Cloud services, Data services, AI, IOT, Cyber and modernization of core systems, thus strengthening its leading position in these areas.

The Company intends to continue to expand its activity in the fields of consulting and management, multidisciplinary engineering consulting, consulting in the supply chain and in the logistical-operational field, and in the field of engineering management and supervision services of mega projects in the fields of infrastructure, especially in the transportation sector.

The Company intends to continue to lead and offer its customers economic models for managed services, both in the field of software development services with emphasis in the field of MSSP(and managed information security) and Offshore area, as well as to offer unique and flexible business models that match the customers' requirements, through the development of new models for the provision of the said services based on Service Level Agreements (SLA).

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

The Company is studying opportunities to expand its operations in the United States, which have been defined by the Company's management as a target market, in the core areas, in general, and in the areas of GRC (Governance, Risk & Compliance) and financial risk management in particular, both through the organic expansion of existing activity and through augmenting the services for additional areas in which the Company is engaged (e.g Information security, Data, and AI) based on the advanced professional resources from across the Matrix group, while incorporating a local presence in the USA, and through locating suitable target companies for acquisition.

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

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

At the same time, the Company is working to expand and deepen advanced and extensive support services.

The Company intends to continue and deepen its activities as part of "Nimbos" for the sale of products in the MARKET PLACE channel to entities in the public sector.

The Company will continue to strive to preserve the excellent relations with its existing software suppliers, most of them leading international giants in their field.

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

17.4 In the field of Cloud infrastructure and computing

The Company intends to continue positioning itself as the leading body in the field of Cloud Services in Israel, significant expansion of its activities in European markets, while continuing to grow in this field, through the CloudZone unit (Public Cloud) and InnerCloud(Private Cloud) through expansion of the range of solutions and services it offers, and the business collaborations with the leading suppliers in the market in this field in Israel and abroad.

The Company intends to continue to be a leading partner of its customers in further equipping and upgrading their systems, in a manner derived from the development and purchase of new information systems or the expansion of the use of existing systems.

The Company intends to focus on expanding its activities in the field of Backup and Recovery Systems for its customers' information.

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

17.5 In the field of Training and implementation:

The Company intends to continue to provide comprehensive solutions for the training requirements and implementation of IT systems of organizations, while incorporating methods of technology usage, in order to perform an Hybrid Model.

The Company also intends to deepen the synergy with the other areas of activity in the Company, including the field of Online Training and new technological learning areas, through offering additional and new types of training courses in the field of professional retraining in the fields of computing, and to expand its activities within the framework of dedicated manpower training and specializing in advanced technologies to increase the outsourcing services based on the personnel that it trains, under the brand, "John Bryce Talent".

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

18. Financial information with regard to geographic areas

See note 24b to the financial statements and 1.2.4 to the Report of the Board of Directors (geographical information).

19. Discussion of risk factors

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

Macro risk factors

19.1. The security situation in Israel

Changes and worsening of the security and political situation may harm the situation of the Company's customers and, accordingly, harm the Company's results, the Company's cash flow, and increase the volume of its bad debts. In addition, to the extent that there is a deterioration in the security situation in Israel, which may lead to the shutdown of economic activity, it will lead to direct damage to the Company's income and business results. For details about the effect on the "Iron Swords War" on the Company's activities, see section 1.1.2 of the Board of Directors' report.

19.2. The economic and political situation in Israel

Most of the Company's activity is in Israel, and most of the Company's revenues are generated in Israel. An economic slowdown and uncertainty in the economy, political uncertainty (see also section 6.2above), due to an economic recession or any other factor, including due to an increase in inflation and interest rates, may lead to a decrease in demand and cuts in volumes IT procurement activities and budgets and the reduction of expenses by some customers, including stopping projects, layoff of employees, recruitment of the Company's employees by its customers, price reductions, reduction of demand for software and hardware products and other cuts, which may lead to damage to the Company's business results. Also, a recession or economic damage to the economy may affect the ability of some of the Company's customers to pay their debts to the Company and cause customers to enter difficulties or collapse, and, as a result, lead to an increase in the scope of the Company`s bad debts and damage its cash flow.

19.3. An increase in the interest rate

To the extent that the increasing trend in interest rates in the economy will continue to be high and prolonged, it is likely to have an adverse impact on the operating results through an increase in financing costs. In addition, to the extent that these will subsequently lead to a recession and economic slowdown in Israel (and/or in the US), these are liable to lead to a reduction in demand and even damage to some of the Company's customers and, as a result, damage to the Company's operating results, as set forth in section 1.1.2 of the Report of the Board of Directors.

For details regarding financial risks, see note 20 to the financial statements.

19.4. The political and economic situation in the USA

The IT market in the United States is directly affected by the economic and political developments in the US economy. Any economic uncertainty and/or damage to the US economy, as well as political uncertainty in the United States(for example the expected November 2024 Election event), can affect the demand in the IT market in the US and may result in damage to the Company's business results in the US. Also, a negative economic trend in the US is liable to lead to impairment in the performance of the Company's major financial clients (as well as other clients) in the United States. As a result, the Company's business in the US, which accounts for a significant part of its profits in recent years, may be adversely affected, as well as lead to a decrease in the Company's cash flow and increase the volume of its bad debts from customers in the United States.

19.5. Change in the exchange rate of the dollar

The change in the exchange rate of the dollar and fluctuations of the exchange rate through the year/years, affects the results of the Company, especially the profit in the Software solutions and services sector in the US, and some of the activities in the Sales, marketing and support sector for software products(Sales of software products, most of which are priced in dollars) and the Cloud and computing infrastructure sector, and also impact adjustments from the translation of the financial statements of the Company's subsidiaries in the US (translation differences). As a rule, an increase in the dollar exchange rate has a positive effect on the Company's results and vice versa. The Company periodically examines the implementation of hedges for foreign currency exposures.
In this regard, see also note 2i to the financial statements.

Sector risk factors

19.6. Human capital

A shortage of workers in the technological field [see section 6.4 above] and in particular in the new technologies, which are the Company's growth engine, leads to difficulties in recruiting required workers for the Company, while increasing the Company's costs in locating and hiring workers to meet market demands, as well as in retaining existing workers. Accordingly, the Company may be required to incur higher salary costs and a high investment in various tools and unique solutions, both to recruit new employees and to retain existing employees. All of these may lead to an erosion of the Company's profitability and damage to its ability to provide its services to its customers and its growth rate and business in the field of inexperienced employees ("Juniors").In addition, the field of work is characterized by multiple regulations and frequent regulatory changes (including changes in the law, expansion orders, court rulings, etc.). The implementation of additional regulatory changes, if any, that may apply to the Company, may expose the Company to significant additional costs, and may even lead to damage to the Company's commitments with its customers and exposure to claims and lawsuits on the part of the Company's employees, which may lead to impairment in the Company's profits and adversely affect its business results.

19.7. Mergers and acquisitions

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

19.8. Competition

The fierce competition in most of the Company's areas of activity(see detail in section 7 above), as well as the low barriers to entry in some of the Company's areas of activity, can lead to a reduction in the scope of the Company's commitments and/or to lower prices which may lead to an erosion of the Company's profits.

Unique risk factors

19.9. Cyber and Information Security

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

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

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

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

In order to carry out the above, the Company invests considerable resources and may be required to increase the investment in these issues, taking into account the increase in risk, the increase in attempted cyber attacks and their sophistication, information security events that may be discovered, and regulatory changes. The occurrence of Information security events at the Company can also lead to Information security events in the Information systems of its customers. The company invests a lot of effort and considerable resources in protecting the Company's systems related to its customers, including compliance with the Information security requirements on the part of the customers and other measures as mentioned above.

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

19.10. Activity abroad

Due to the Company's activities in different countries of the world (mainly in the USA), the possibilities of supervision and control over the activities of the overseas subsidiaries are less than the possibilities regarding the organic activity in Israel. The limited control is liable to lead to late detection of problem areas, if any, in the Company's activities at remote sites, and to prevent the Company from reacting with the required speed. The Company is also exposed to risks deriving from the very activity in foreign countries (including political and state risks) and risks arising from an economic slowdown in those countries (particularly the USA), which will lead to a decrease in demand for the Company's services and impairment in its business results. See also, in this regard, section 19.4 above.

19.11. Technological developments and changes in the IT field

The Company's success depends on its ability to keep the solutions it offers its customers technologically up-to-date, and to develop or enter into agreements regarding new software systems and solutions that will keep pace with technological developments, the speed of changes in the field of IT and the changing standards in the industry, and the frequent changes in customer needs. There is no certainty that the Company will succeed in procuring on time the skills required for the new technologies (see, in this context, also section 19.6 above), or enter into agreements in connection with such systems and solutions, including, but not limited to, locating leading software providers and developing specializations and knowledge centers at the appropriate time, in order to deal with new technologies and/or with the changing demands of customers.

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

19.12. Migration to Cloud Solutions

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

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

19.13. Significant dependence on Banking, Finance and insurance and High-tech customer sector

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

19.14. Government budget and tenders

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

19.15. Contractual engagements with customers on a fixed price basis

An increasing part of the Company's income is derived from contracts on a fixed-price basis. The pricing for these engagements is based on an estimate of future costs. In cases where the Company does not accurately estimate the resources required to carry out projects at a fixed price, and/or does not correctly estimate the costs of employee wages during those projects (including expected salary increases during the project (In this regard, see also section 19.6 above.), or its ability to complete its obligations on time as established in the contract, may adversely affect the Company's business results. This risk will increase in direct proportion to the increase in the volume of fixed-price projects carried out by the Company, in light of the Company's tendency to expand its project activities. A similar risk, albeit to a lesser extent, exists in respect of the expansion of the activities of the managed services by the Company.

19.16. Commitments with clients for the provision of professional services

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

If the Company does not manage to adjust to this trend in the Professional services market, while reducing the damage of the decrease in Professional services agreements on the one hand, and increasing contracts with its customers based on managed services on the other hand,

19.17. Dependence on suppliers and software manufacturers

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

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

19.18. Supply chain delays and chip shortages

In recent years, there have been disruptions in global supply chains, after a period of certain relaxation, worsened during the fourth quarter of 2023 following the threats of the Houthis and the attacks on ships in the Red Sea, which led to significant delays in delivery dates, at the same time, as a sharp increase in the prices of transportation, in particular the maritime transportation. At the same time, there has been a shortage of electronic chips.

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

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

19.19. Entry into new areas of activity

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

19.20. Legal and insurance risks

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

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

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

Furthermore, professional insurance costs have been on a sharp upward trend for several years. Since the Company takes care to maintain adequate insurance coverage for its activities, its expenses for these insurances are expected to increase and cause that the Company's business results may be adversely affected.

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

20. Glossary

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

Term	Definition
"**Matrix**" or "**The Company**"	Matrix IT Ltd.
"**the Group**" or "**the Matrix Group**"	The Company and its subsidiaries
"**Agile**"- Agility (agility + flexibility)	An iterative approach to project management and software development that helps teams provide value to their customers and aims to enable rapid responsiveness and flexibility to changes. The "Agile" approach is based on continuous and ongoing dialogue between the staff members and the customer in order to deal with changes in requirements as early as possible and to bring about early detection of problems in the software, which will allow them to be dealt with in the early stages.
"**AI**" -Artificial Intelligence	A branch of computer science that deals with the ability to program computers to act in a way that displays capabilities that have so far been characterized only in human intelligence.
"**ALM**"– Application Lifecycle Management (Management of the software development life cycle)	Tools and methodologies that make it possible to manage the software development process in a systematic, consistent and measurable, and controlled way throughout the software development life cycle.
"**BCP**" - Business Continuity Planning	A management doctrine that relates to the activity that an organization is required to perform in order to ensure that critical business functions will be available to customers, suppliers, regulators, and other entities with an interest in the organization in order to prepare and organize to achieve rapid recovery capability following a disaster.
"**Big Data**"	A database of extremely large complexity and volume characterized by 3 main "V"s: Volume (extent), Velocity (update rate), Variety (diversity of information types in terms of structure, type and nature of the data).
"**BPO**" – Business Process Outsourcing	Transferring business processes to the operation and responsibility of an external supplier - a third party.
"**Customer Experience**" (**CX**)	The set of interactions the customer has with the organization. Planning the customer experience allows you to define a plan that will help provide the customer with a positive and meaningful experience throughout all his points of contact with the organization, whether through digital or physical channels (branches, billboards, television, etc.).
"**Data Science**" – Data science, also known as "Science Based on Data"	A field of scientific methods, processes, algorithms and systems for sharing knowledge or generating insights from data in various forms, structured or unstructured, similar to data mining and to machine learning.

Term	Definition
"DBA" – Data Base Administration	Planning, design, construction, ongoing maintenance, protection and constant optimization of the organization's databases, maintaining the "health" of the database including survivability, availability, information security, and performance
"Deep Learning"- "Machine Learning"	Computational learning deals with algorithms that allow the computer to learn from examples and is suitable for a variety of computational tasks where classical programming is not possible. Deep Learning is a subfield of Machine Learning that handles even more difficult problems using huge data, unique hardware, and multi-parameter neural networks.
"DevOps"	A development culture that allows Dev-Development and Ops-Operation teams to work together on software planning, development, testing, distribution and operation, through a combination of automated tools, flexible computing infrastructure, and work principles.
"DRP"– Disaster Recovery Plan	A plan that includes processes, policies, procedures and infrastructure used to recover from a disaster that temporarily disables the technological infrastructure essential to the operation of an organization (such as: fire, earthquake, explosion, etc.), which is a subprocess of the Business Continuity Process (BCP) detailed above.
"EIM"– Enterprise Information Management	Corporate information management, EIM should ensure the reliability, integrity, and consistency of information throughout all business processes in the organization.
"ERP" - Enterprise Resource Planning	A system that is used for administrative data processing and handles as one piece (integrative) key business processes in the organization including: human resources, finances, logistics, production, operations, etc.
"Fixed Price"	A contract with a pre-agreed amount in which the supplier is responsible for completing the project and providing agreed contents, subject to the amount stipulated in the contract.
"GRC" – Governance, Risk and Compliance	A combination of three disciplines: corporate governance, risk management and compliance (for regulations, laws and internal organizational procedures). The common denominator for all of them is the protection and safeguarding of the organization from external threats, criticism from the regulators and management failures.
"IaaS" – Infrastructure as a Service	A computing model in which computing infrastructures (computing power, memory, storage space) are offered for use as a service and can be consumed in a pay-as-you-go model, where the resources provided increase/decrease as needed (On-Demand) in an elastic manner.

Term	Definition
"IoT" - Internet of Things"	A linked set of objects, uniquely identified, that incorporate technology that allows them to connect, monitor and perform operations. The "things" act against themselves, against the environment and against other objects.
"Industry 4.0"	A term that represents an organizational concept for managing factories and industrial processes in a smart and modern way, including communication capabilities and interfaces of the production machines and integrating technologies such as the Internet of Things, real-time information analysis, robotics, artificial intelligence, and cyber defense. In the Industry 4.0 era, machines will be increasingly based on machine learning and will be able to make independent decisions using Big Data, design the production process and carry out simulations, with the help of cloud computing. A combination of robotics and smart sensors will improve and refine the production process.
IIoT – Industrial Internet of Things	A specific type of IoT applied in the industrial sector in manufacturing plants. Focusing on machine-to-machine (M2M) communication, Big Data and Machine Learning (M2M), the IIoT enables industries and organizations to have better efficiency and reliability in operating the production floor.
"ITSM" - IT Service Management	All the activities guided by policies, processes and procedures which regulate the IT services that the information systems organization provides to its internal and external customers
Low Code	A code development method using graphical interfaces and configuration tools alongside traditional code development. Enables rapid development of applications and a significant "shortcut" on the way to working applications
"Nearshore"	An outsourcing sector that includes the transfer of various professional activities, which are not part of the Company's core areas, to companies that specialize in these areas and operate in the same country where the Company itself operates.
"NLP" - Natural Language Processing	A subfield of artificial intelligence and linguistics that investigates the problems associated with the processing and manipulation of natural language, and the understanding of natural language in order to make computers "understand" things that are said or written in human languages.

Term	Definition
"**OEM**" - Original Equipment Manufacturer	A term used in various fields of production (including computing), which describes a manufacturer who integrates into his product a component (hardware or software) purchased from another company
Offshore	In the Offshore model, organizations turn to suppliers from foreign countries and transfer various professional activities to them compared with the Nearshore model in which organizations transfer professional activities to suppliers from the same country.
"**PaaS**" - Platform as a Service	A service that provides a platform for developing, running and managing applications over the network in a model of subscription to the service (Subscription) and/or payment according to use (Pay Per Use).
"**PLM**" – Product Lifecycle Management	The process of managing the engineering knowledge in the life cycle of the product from the idea stage, through the stages of design, detailed design, production, marketing and sales, service and recycling or disposal.
"**RPA**" - Robotic Processing Automation	Software that becomes repetitive and rule-based processes performed by humans into automatic processes performed by bots.
"**SaaS**" - Software as a Service	Delivery of applications (e.g. email, billing, ERP, CRM) for services over the network, without local installation, in the model of registration for the service (Subscription) and/or payment according to use (Pay Per Use).
"**SLA**" - Service Level Agreement	A legal agreement between the service provider and the service recipient that quantitatively and conclusively defines the framework of the service, its content, how it is measured and its limitations. The agreement can contain a fine/reward mechanism according to compliance with the required service level.
"**SOC**" - Security Operation Center	An information security center in an organization that includes personnel, processes and dedicated technology for the purpose of prevention, detection, monitoring, analysis and ongoing response to information security and cyber incidents.
"**Soft Skills**"	The set of skills that are required for an employee/person as a basis for achieving his goals and are not derived directly from his profession/specialization (for example: interpersonal communication, presentation and public speaking skills, persuasion skills, negotiation skills, etc.).
"**T&M**" - Time & Materials	A billing method based on actual labor time spent plus the cost of materials
"**WMS**" - Warehouse Management System	WMS is software that allows you to manage logistics warehouses efficiently and effectively, sometimes in combination with robotic systems.

CHAPTER B

Report of the Board of Directors for the year ended December 31, 2023

The information contained in the Report of the Board of Directors published by the Company, constitutes a translation of the Report of the Board of Directors 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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1. Explanations of the Board of Directors for the business situation of the corporation

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

1.1.1. Description of activity segments

Matrix IT Ltd., together with its subsidiaries, is a company operating in the fields of Information Technology Solutions and Services, Consulting, and Management in Israel and USA.

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

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

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

1.1.2. The business environment

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

The global economic environment

As of the date of the report, the global economy continues to face the consequences of rising inflation, rising interest rates, and low growth. During the year, the world economy showed a trend of recovery, including a slowdown in world inflation rates and stabilization of interest rates mainly in the second half of the year (and later, at the beginning of 2024).

The trend of increasing price levels in the world began towards the end of 2021 and intensified in 2022, following the cancellation of the Corona restrictions, the increase in demand, and the ongoing war between Russia and Ukraine. In order to curb inflation, the central banks made continuous moves of interest rate increases. During the year 2023, there was a moderation in the inflationary pressures, among other things due to the interest rate increases. In the USA, the inflation rate decreased to a level of approximately 3.1% (January 2024 in annual terms based on the last 12 months - LTM). Towards the end of 2023, the interest rate in the USA stabilized at approximately 5.5% and the Federal Reserve Bank of the USA announced that the interest rate is expected to remain in the range of 5-5.25% in the coming year.

The Eurozone also experienced in 2023 a stabilization of interest rates and a moderation of inflation levels (although this is still above the target).

Despite the above, it should be noted that there are still fears of further inflationary outbreaks. This is, among other things, following the possible impact of the Houthi terrorism from Yemen on the costs of transport and transportation (the lengthening of shipping routes) and the effect of the Russia-Ukraine war on energy prices.

The economic environment in Israel

The main global economic trends detailed above took place to a large extent in the Israeli economy as well. At the same time, the Israeli economy experienced in the past year unique and complex local events that had a substantial impact. The year 2023 began with political struggles surrounding the government's attempt to promote fundamental changes in the legal system ("legal reform"), moves that led to a rift in Israeli society, contributed to an increase in uncertainty in the economy, and affected the activity of the business sector, including the high-tech sector. Later, on October 7, 2023, a brutal attack was carried out by the terrorist organization Hamas on the State of Israel, which led to an ongoing war that continues to this day. The great uncertainty regarding the duration of the war, its intensity, and its results, led to a downward revision of the growth forecast and an expected increase in the government deficit and the debt-to-GDP ratio. Regarding the lowering of the credit rating of the State of Israel by Moody's see below.

Economic indicators

Similar to the global trend, during the past year inflation in Israel decreased from a peak annual rate of approximately 5.4% to an annual rate of approximately 2.6% (January 2024 in annual terms based on the last 12 months - LTM). This is largely due to interest rate increases by the Bank of Israel - which boosted the interest rate from a zero level to a record high of 4.75% in May 2023. Since then, the interest rate has remained unchanged until it was lowered to a rate of 4.5% in January 2024. According to the Bank of Israel's forecast, the interest rate is expected to decrease during the year 2024 to 3.75%-4%. At the same time, even in Israel, there is still a fear of the renewal of inflationary pressures, among other things following the “Iron Swords War” and a possible effect on the prices of goods, maritime traffic (the attacks of the Houthis from Yemen) and the exchange rates of the main currencies against the shekel.

At the beginning of the war, the shekel weakened against the dollar and even crossed the 4 NIS mark to the dollar, but later it stabilized at a level similar to the rate before the war. Further to the above, the company's activity in 2023 - both in the first nine months and in the last quarter, was characterized by the continued increase in the volume of its activity, in revenues and profit. At the same time, the increase in interest rates in the economy in the first half of the year resulted in an increase in the company's financial 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 material, among other things because the company's financial debt is not linked to the inflation 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 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.

The legal reform

Starting at the beginning of 2023, the Israeli government promoted a plan to make changes in the legal system in Israel, which provoked sharp disputes in the public and the political system. With the outbreak of the Iron Swords War until this time, the government stopped actively promoting the plan, but there is no certainty that in the medium and long term, the plan will not be promoted. It should be noted in this regard that, according to the publications and assessments of various experts, the legal reform, to the extent that it is promoted, and the public division surrounding it, may have a negative impact on the Israeli economy and, among other things, lead to damage to the scope of investments in the Israeli economy and to the scope of economic activity in the economy.

High-tech industry

As a company that provides solutions, products, and services in the field of Information systems, the Company competes with other companies in the High-tech industry for quality personnel. In addition, a significant part of the Company's sales (14.1% in 2023) is aimed to companies in the high-tech industry.
The year 2023 marked the continuation of the slowdown in the high-tech sector in Israel and around the world. This slowdown was expressed, among other things, in a decrease in the scope of capital raising in the industry, the closure of several start-up companies, and as a result, reductions in the number of manpower and layoffs in some companies. A large part of those who were laid off were re-employed in the industry, which still suffers from a shortage of technological manpower. According to the Central Bureau of Statistics data, the number of vacancies in the high-tech field in the second quarter of 2023 has 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 high-tech companies may make it easier for the company to recruit and retain employees, and mitigate pressures for wage increases on the part of the employees. 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 cause damage to the results of the company's activities.

"Iron SwordsWar”

On October 7, 2023, the "Iron SwordsWar” (hereinafter - "the war") broke out. This, after a murderous attack by the terrorist organization Hamas on settlements surrounding Gaza and other settlements in the south of the country, which, according to the data known today, claimed the lives of over 1,400 Israelis and injured thousands more. In addition, over 130 Israeli citizens and soldiers are defined as abductees at this time.
The war expanded also to the North area and influenced also in the Central area of the country, and in the civil Israeli population all over the State. As part of the war, hundreds of thousands of Israelis were evacuated from their homes and a massive recruitment of reservists was carried out for an unknown period.
Until the outbreak of the war, the Israeli economy registered a GDP growth of about 3.5%, but in the fourth quarter, there was a sharp contraction in the GDP because of the war. The Bank of Israel has updated the growth forecast downwards in light of the effects of the war, according to which GDP is expected to grow in each of the years 2023 and 2024 at a rate of 2%. Also, the government deficit and Israel's debt-to-GDP ratio, are also expected to increase, and accordingly, the state budget is expected to reflect cuts in various budget items for the purpose of diverting resources to increase the defense budget.

Against the background of the effects of the war, the international credit rating company Moody's announced the lowering of the credit rating of the State of Israel to level A2 (from level A1) with a negative outlook. The main motive for downgrading the credit rating is Moody's assessment that the lateral consequences of the current conflict with Hamas, both during and after its end, substantially increase the risks of the State of Israel, and may damage the country's fiscal strength in the foreseeable future.

Influence on the Company`s Activity Results

As it will be detailed below, despite the limited negative impact of the war on the company's results**, the company's activity in the fourth quarter of 2023 was characterized by the continued increase in activity volumes, revenues, profit, and cash flow, which compensated for the effects of the war.**

As of the date of the report, and close to the date of publication of the report, approximately 470 and approximately 300 (respectively) of the company's employees are recruited into the reserves, and this is after the peak of the company's employees recruited into the reserves reached over 700. As a result, the company recorded a net expense of approximately 6.5 million NIS (as part of the cost of sale) which resulted from only partial compensation by the state for reservist workers (including the lack of compensation for the loss of the profit component).

Also, the activity of the training and implementation sector (which constitutes less than 4% of the scope of the company's activity) was reduced in the first months of the war, due, among other things, to the difficulty of implementing courses subject to the limitations of the Home Front Command.

In the medium and long term, as long as the war continues and has a negative impact on the level of economic activity in the entire Israeli economy or on certain sectors of activity (such as commerce, industry, real estate, retail, tourism, etc.), and/or on certain government offices and bodies (for cutting office budgets in favor of increasing the defense budget to finance the war), this may affect the financial strength of some of the company's clients and/or lead to a reduction in demand and a reduction in their IT procurement budgets, and accordingly affect the scope of the company's activities with those clients and/or affect their payment ethics.

In parallel to the potential negative effects, there are several factors in connection with the Company's activities that may moderate the aforementioned effects, including these:

- The Company has a large spread of customers (over 3,000 active customers), most of them large and financially stable companies and entities.
- The Company`s activities abroad(with an emphasis on the USA) comprise approximately 20% of the operating profit and not expected to be influenced by the war.
- The Company has extensive activity in strong sectors such as government, public bodies, security, finance, health, and transportation (see also distribution of the Company's customers by branches of activity in section 2 of the chapter describing the Corporation's Business in the Annual report).
- The Company has limited activity with medium and small customers whose exposure to the effects of the war is relatively high.
- The Company has a wide diversification of areas of activity, including areas of activity that are relatively "immune" to potential negative effects of the war, such as the activity of the Cyber area, the activity of the Defense area, the activity of the Engineering area and more.

Finance and liquidity

As stated above, as of the date of this report, the impact of the war on the company's results was limited and **the company's activity in the fourth quarter of 2023 was characterized by the continued increase in activity volumes, revenues, profit, and cash flow.**

In addition to this, the company has high financial strength, a high balance of liquid assets (cash and unused credit facilities), business diversification in a wide variety of fields of activity, and appropriate leverage and coverage ratios.

Furthermore, the company estimates that its financial strength, together with its cash balance, its unused credit facilities, and the current cash flow it generates, will allow it to continue to finance its current activities, while fully complying with its obligations, even if the state of war worsens to a limited extent and/or continues for a long time.

At this stage, the duration of the war, its intensity, and the manner of its development into additional arenas involve great uncertainty. The company is unable to assess the full future effects of the war on the economic situation in Israel in general, and on the company's activities in particular, and the company is unable to assess the full future effects of the war on trends in the business environment that existed before its outbreak, such as the increase in inflation and interest rates in the economy, the crisis in the High-Tech industry, and the fluctuations in exchange rates, as detailed above, when the adverse effect of the war on exacerbating these trends may also lead to damage to the company's results.

For more details, see section 19 of the chapter describing the corporation's business.

The above-mentioned information in this section regarding the company's assessments of the consequences of the war on its activities, the consequences and effects of the war which is in progress, and its full impact and consequences have not yet been clarified, is forward-looking information, as defined in the Securities Law, 5578-1968 ("Securities Law"), based on the management's estimates and its business experience and assumptions, various scenarios, analyzes and public information, as well as the estimates of research companies and analysts as of the date of the report. The information may not be realized, in whole or in part, or may be realized differently, including materially than expected, among other things, as a result of the uncertainty of the high, economic instability, and 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 equity payment). 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 to 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 15, 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. Within the termination of the employment of an officer, 45,000 options were forfeited before they vested. In addition, on August 22, 2023, the company allocated 45,000 options, exercisable for up to 45,000 shares of the company to an office holder in the company. For more details see note 18 to the financial statements and immediate reports dated 13/3/2023 reference 2023-01-026148, dated 27/3/2023 reference 2023-01-032538, dated 10/8/2023 reference 2023-01-092331 and dated 23 /8/2023 reference 2023-01-097278.

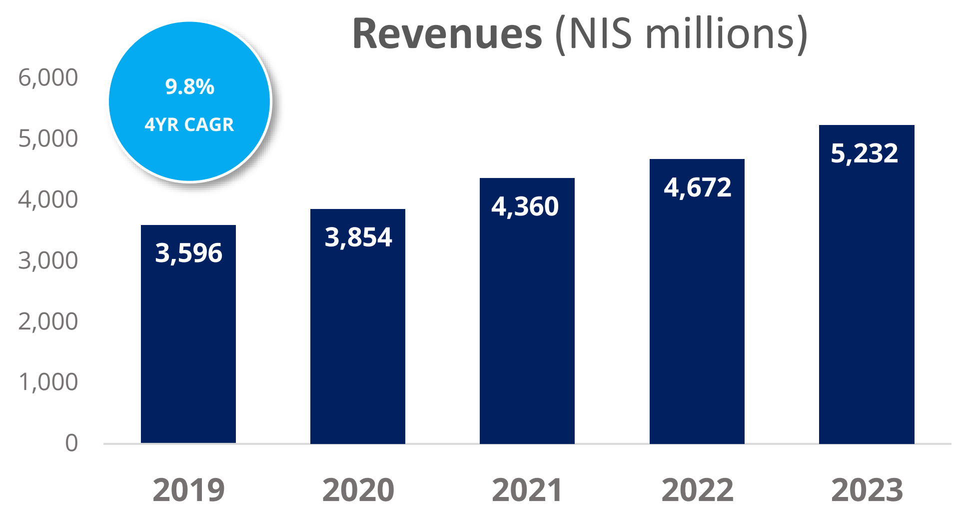
Gaining of a substantial project in the engineering field

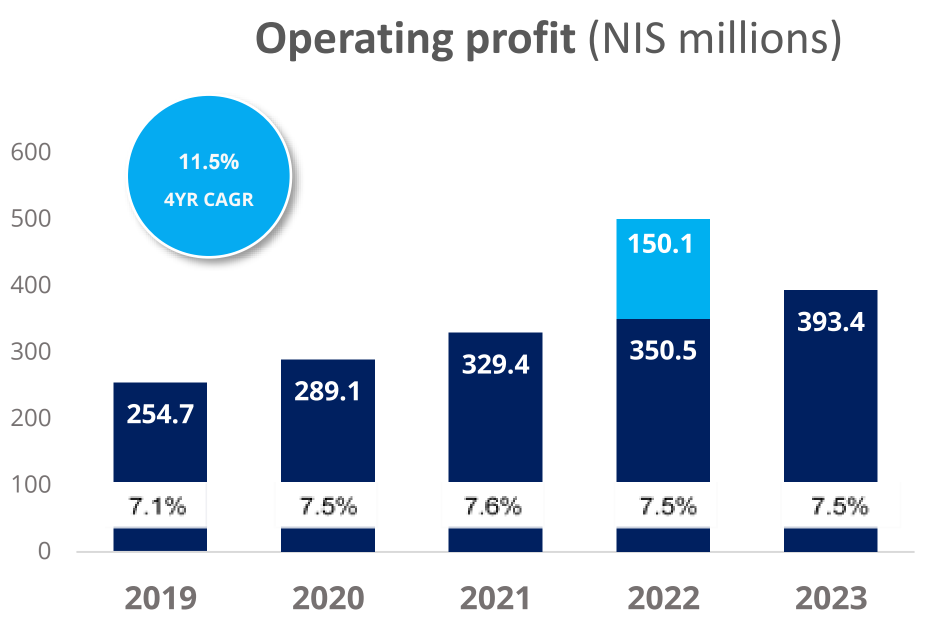
In August 2023, a special purpose partnership (SPV) owned by Dana Engineering Ltd., a subsidiary of the company (which shared 36% in the partnership) and other partners, won a tender for the planning, design management, and execution management of the M1 line of the Tel Aviv Metropolitan - the Metro. The duration of the project is estimated at 13 years, and the scope of the fees to the partnership for the project is estimated at NIS 2 billion (Matrix share as mentioned - 36% of this). For more details see the immediate report dated 21/8/2023 reference 2023-01-096171.

Gaining a substantial project in the security field

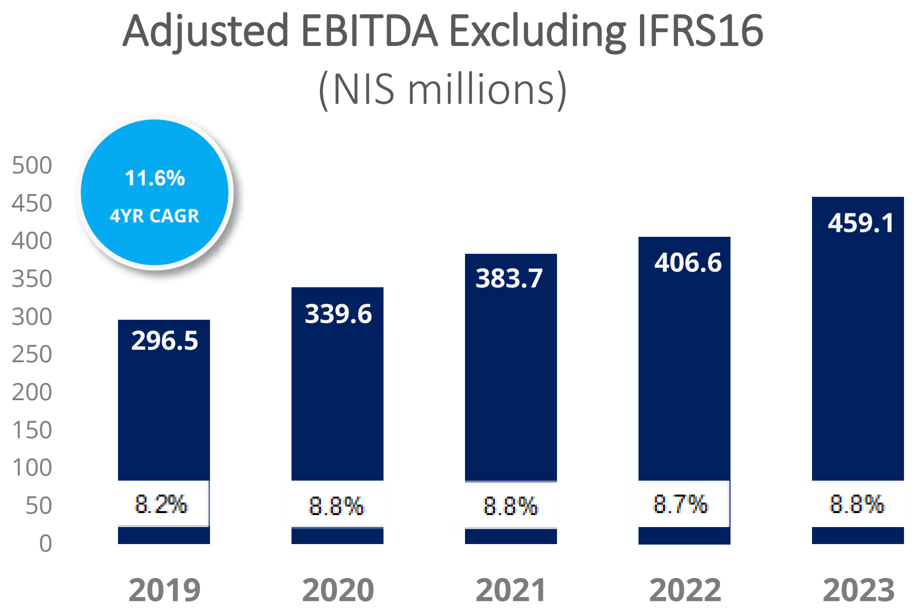
In August 2023, Matrix Defense Ltd., a wholly-owned subsidiary of the company, entered into an agreement in the amount of approximately 40 million US dollars, under which it will develop and provide an advanced AI system on cloud infrastructure to a foreign country. The project will include data and analytics infrastructures and unique cyber defense capabilities. The project is expected to last about two and a half years. For more details see the immediate report dated 8/8/2023 reference 2023-01-091314.

1.1.4. Main breakdown of results of activity in the past 5 years (2019-2023)





* In 2022 includes a capital gain from the realization of an investment in Infinity in the gross amount of NIS 150.1 million and NIS 121.6 million after tax



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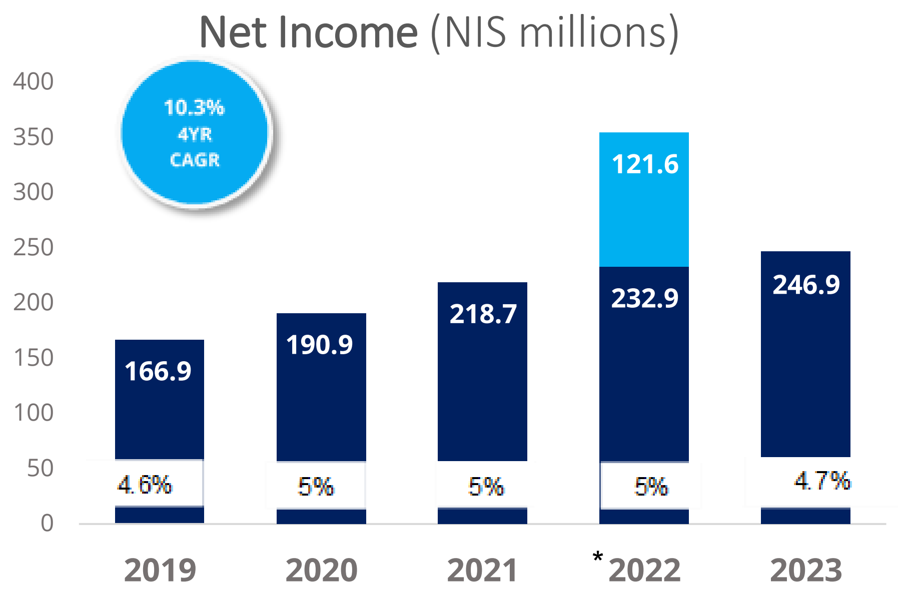
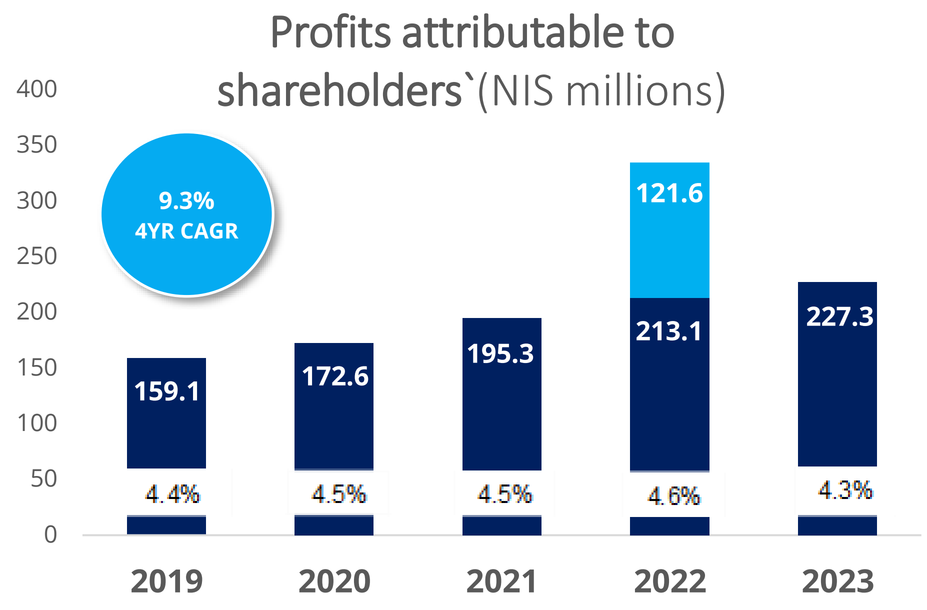
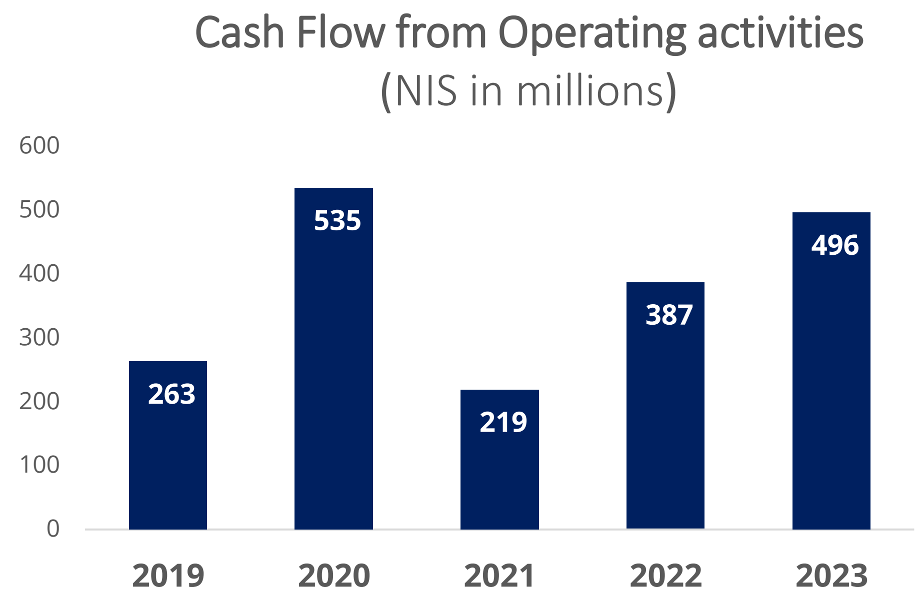


* In 2022 includes a capital gain from the realization of an investment in Infinity in the gross amount of NIS 150.1 million and NIS 121.6 million after tax



* In 2022 includes a capital gain from the realization of an investment in Infinity in the gross amount of NIS 150.1 million and NIS 121.6 million after tax



1.1.5. Condensed statements of consolidated income for the years ended December 31, 2023, and December 31, 2022, and for the fourth quarter of 2023 compared to the fourth quarter of 2022 (in thousands of NIS)

	3 months ended 31.12.23	3 months ended 31.12.22	Change in %	Year ended 31.12.23	Year Ended 31.12.22	Change in %
Sales turnover	1,320,690	1,218,785	8.4%	5,232,105	4,672,689	12.0%
Cost of sales and services	1,117,274	1,035,568	7.9%	4,467,925	4,000,682	11.7%
Gross profit	**203,416**	**183,217**	**11.0%**	**764,180**	**672,007**	**13.7%**
% of Sales	**15.4%**	**15.0%**		**14.6%**	**14.4%**	
Selling and marketing expenses	51,275	45,896	11.7%	189,168	166,246	14.1%
General and administrative expenses	51,129	43,269	18.2%	181,063	155,273	16.6%
Operating profit before gain from realization of investment	**101,012**	**94,052**	**7.4%**	**393,419**	**350,488**	12.2%
% of Sales	**7.6%**	**%7.7**		**7.5%**	**7.5%**	
Gain from realization of investment	-	-		-	150,059	
Operating profit after realization of investment	**101,012**	**94,052**	**7.4%**	**393,419**	**500,547**	**(21.4%)**
Financing expenses, net	18,908	23,854	(20.7%)	68,233	45,781	49%
Profit before deduction of taxes on income	82,104	70,198	17.0%	325,186	454,766	(28.5%)
Taxes on income	20,183	16,953	19.1%	78,331	100,285	(21.9%)
Net income	**61,921**	**53,245**	**16.3%**	**246,855**	**354,481**	**(30.4%)**
% of Sales	**4.7%**	**4.4%**		**4.7%**	**7.6%**	
Net earnings attributable to:						
Shareholders of the Company	56,537	50,134	12.8%	227,333	334,669	(32.1%)
Non-controlling interests	5,384	3,111	73.1%	19,522	19,812	(1.5%)
Net income	**61,921**	**53,245**	**16.3%**	**246,855**	**354,481**	**(30.4%)**
% of Sales	**4.7%**	**4.4%**		**4.7%**	**7.6%**	
EBITDA[1]	**155,020**	**137,139**	**13.0%**	**597,038**	**512,713**	**16.4%**
% of Sales	**11.7%**	**11.3%**		**11.4%**	**11.0%**	

[1] Earnings before interest, taxes, depreciation and before Gain from realization of Investment

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

	3 months ended	3 months ended	Change in %	Year ended	Year Ended	Change in %
Sales turnover	1,320,690	1,218,785	8.4%	5,232,105	4,672,859	12.0%
Operating profit	101,012	94,052	7.4%	393,419	350,488	12.2%
Net profit	61,921	53,245	16.3%	246,855	232,922	6.0%
Net profit attributable to Shareholders	56,537	50,134	12.8%	227,333	213,110	6.7%

1.2. Analysis of results of activity

1.2.1. Seasonality

The fourth quarter (similar to the corresponding quarter last year) was affected by the"Tishrei festivities", that happened during the third quarter("seasonality" - see also section 9 on the Report on the description of the Corporation's Business).

In this regard, the amount of potential working hours in the fourth quarter of 2023 was about 11% higher compared to the corresponding quarter last year.

On the other hand, the company recognized in the fourth quarter net expenses of approximately NIS 6.5 million due to the recruitment of hundreds of the company's employees to the reserves duties as part of the Iron Swords War.

1.2.2. Analysis of results

1) Sales of the Company in 2023 amounted to NIS 5,232.1 million compared to NIS 4,672.7 million in 2022, an increase of 12%. The company's sales in the fourth quarter amounted to approximately 1,320.7 million NIS compared to approximately 1,218.8 million NIS in the corresponding quarter last year, an increase of approximately 8.4%.

   The increase in the company's sales in the cumulative period and in the fourth quarter, were affected by the consolidation for the first time of the results of Zebra (starting from the first quarter of 2023). The volume of sales in the entire year 2023 was additionally affected by the consolidation for the first time of the RDT (starting from the third quarter of 2022). On the other hand, the realization of an investment and the termination of the consolidation of the subsidiary company Infinity (at the end of the first quarter of 2022) had the opposite effect of reducing the annual sales volume compared to last year.

   Neutralizing these effects, the company recorded organic growth in sales at a rate of approximately 10.7% and about 7.3% in 2023 and in the fourth quarter, respectively, compared to the corresponding periods last year.

2) **Gross profit** in 2023 amounted to NIS 764.2 million and stood at a rate of 14.6% of sales compared to NIS 672 million in 2022, which constituted 14.4% of sales, an increase of 13.7%. Gross profit in the fourth quarter amounted to NIS 203.4 million and stood at a rate of 15.4% of sales compared to NIS 183.2 million in 2022, which constituted 15% of sales, an increase of 11%.

   The increase in total gross profit in 2023 and in the fourth quarter is due to the increase in the volume of sales. The increase in the ratio of gross profit to total revenues in 2023 compared to the corresponding period last year is attributed to the growth in the volume of revenues in the IT solutions sector in the US and in the marketing and support sector for software products, in which the profitability rate is high relative to the other sectors of activity. The increase in the ratio of gross profit to total revenues in the fourth quarter, compared to the corresponding quarter, is also attributed to the increase in potential working hours in the quarter and to operational efficiency processes in the company, which were partly offset by the effect of recruiting hundreds of company employees to the reserves duties as part of the Iron Swords War.

3) **Sales, marketing, management, and general expenses** in 2023 amounted to approximately NIS 370.7 million (approximately 7.1% of sales), compared to approximately NIS 321.5 million in 2022 (approximately 6.9% of total sales). Sales, marketing, management, and general expenses in the fourth quarter amounted to approximately 102.4 million NIS(about 7.8% of sales), compared to about NIS 89.2 million in the corresponding quarter last year (about 7.3% of total sales).

   The main increase in sales, marketing, management, and general expenses in 2023 and in the fourth quarter resulted from an increase in the scope of the company's activities, and from the recording of expenses for share-based payment plan compensation to officers and managers in the amount of approximately NIS 16.1 and approximately 4.5 million, in 2023 and in the fourth quarter, respectively (compared to approximately 1.3 and about NIS 0.3 million in the corresponding periods last year).

   Also, the sales expenses in 2023 and in the fourth quarter include amortization of intangible assets (customer base and backlog, which were recognized in the recognition of PPA of M&A transactions) in the amount of approximately 26.7 and about 6.8 million NIS, respectively (about 20.8 and about 5.5 million NIS, respectively, in the corresponding periods last year).

4) **Operating profit**

   The operating profit in 2023 amounted to about 393.4 million NIS (about 7.5% of sales), compared to a profit from regular operations (operating profit before the capital gain from the realization of the investment in Infinity) in the amount of about 350.5 million NIS (about 7.5% of sales), an increase of about 12.2%.

   The operating profit in the fourth quarter amounted to about 101 million NIS (about 7.6% of sales), compared to about 94.1 million NIS (about 7.7% of sales), in the corresponding quarter last year, an increase of about 7.4%.

   The increase in operating profit in 2023 and in the fourth quarter compared to the corresponding periods last year, is attributed to growth in profit in all sectors, except for the decrease in the training and implementation sector, and in particular in the IT solutions and services sector, consulting and management in Israel and the IT solutions and services sector in the USA.

   Further to the detail in the sales section above, neutralizing the effect of the consolidation for the first time of RDT and Zebra and the sale of Infinity, as mentioned, the company recorded organic growth in the operating profit at the rate of about 9.9% and about 2.1% in the quarter and period, respectively.

5) Capital gain from realization of investment

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

6) Financing income/expenses

Financing expenses (net) in 2023 amounted to approximately NIS 68.2 million compared to financing expenses (net) totaling approximately NIS 45.8 million in 2022. An increase of approximately NIS 22.4 million.

Financing expenses (net) in the fourth quarter amounted to approximately 18.9 million NIS compared to financing expenses (net) totaling approximately 23.9 million NIS in the fourth quarter of 2022. A decrease of approximately 4.9 million NIS.

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

	3 months ended 31.12.23	3 months ended 31.12.22	Change in thousand NIS	Year ended 31.12.23	Year Ended 31.12.22	Change in thousand NIS
Interest, commission, and other (net)	8,413	9,906	(1,493)	39,530	28,976	10,554
Exchange rate differences – expenses (income)	5,851	4,812	1,039	1,403	(2,748)	4,151
Accounting financial expenses*	4,644	9,136	(4,492)	27,300	19,553	7,747
Total financing expenses (net)	**18,908**	**23,854**	**(4,946)**	**68,233**	**45,781**	**22,452**

As detailed above, the main change in net financing expenses in 2023, compared to the corresponding year last year, derives from an increase in interest expenses on the Company's liabilities (net of financing income on deposits and investments), due to the increase in the interest rate in the economy, and an increase in accounting financing expenses (which are not cash flow expenses).

On the other hand, in the fourth quarter, the company recorded a decrease in financing expenses, compared to the corresponding quarter last year, and this was mainly due to a decrease in accounting financing expenses and a decrease in net interest expenses, in light of the decrease in the extent of the company's financial debt during the year.

* Financial expenses due to leases, adjustment of Put Option liabilities to Non-controlling interest in subsidiaries, and adjustments for employees' actuarial liabilities.

7) Taxes on income

Tax expenses in 2023 amounted to about 78.3 million NIS (about 24.1% of the profit before tax), compared to about 100.2 million NIS in 2022 (about 22.1% of the profit before tax).

The tax expenses in the fourth quarter amounted to approximately 20.2 million NIS (approximately 24.6% of the profit before tax) compared to approximately 16.9 million NIS (approximately 24.2% of the profit before tax) in the corresponding quarter.

The decrease in tax expenses in 2023 (with an increase in the tax rate compared to the corresponding period) 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

Net profit in 2023 amounted to approximately NIS 246.9 million (approximately 4.7% of sales), compared to about NIS 354.4 million (about 7.6% of sales) in 2022. Excluding the net capital gain from the sale of Infinity, the net profit in 2022 amounted to about NIS 232.9 million (about 5% of sales), an increase of about 6% compared to the same period last year.

The net profit in the fourth quarter amounted to approximately NIS 61.9 million (approximately 4.7% of sales), compared to about NIS 53.2 million (about 4.4% of sales) in the corresponding quarter last year, an increase of about 16.3%.

9) Net profit attributable to the Company`s Shareholders`

Net profit attributable to the company's shareholders in 2023 amounted to approximately NIS 227.3 million (approximately 4.3% of sales), compared to approximately NIS 334.7 million (approximately 7.2% of sales) in 2022. Excluding the net capital gain from the sale of Infinity, the net profit for the shareholders in 2022 was about NIS 213.1 million (about 4.6% of sales), an increase of about 6.7%.

The net profit attributable to the company's shareholders in the quarter amounted to about 56.6 million NIS (about 4.3% of sales), compared to about 50.1 million NIS (about 4.1% of sales) in the corresponding quarter last year, an increase of about 12.8%.

10) Total comprehensive income (NIS in thousands)

	3 months ended 31.12.23	3 months ended 31.12.22	Year ended 31.12.23	Year Ended 31.12.22
Net profit	61,921	53,245	246,855	354,481
Other comprehensive income (after the effect of tax):				
Gain (loss) from remeasurement in respect of defined benefit plans	(705)	1,794	3,280	8,923
Change in fair value of instruments used for cash flow hedging	112	(375)	(532)	(375)
Adjustments arising from the translation of financial statements	(18,232)	1,308	11,981	35,842
Total comprehensive income	**43,096**	**55,972**	**261,584**	**398,871**

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

The EBITDA figure is included in the Report due to its being an accepted index for measuring the results of activity in similar companies, which is an approximation of operating income flows, which cancels the effect from the operating income expenses not involving cash flows, such as depreciation and amortization expenses, including due to intangible assets acquired in business combinations.
It will be noted that in the EBITDA data for the cumulative period last year, the company neutralized the capital gain from the sale of Infinity.

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

	3 months ended 31.12.23	3 months ended 31.12.22	Change in %	Year ended 31.12.23	Year ended 31.12.22	Change in %
Operating profit	101,012	94,052		393,419	350,488	
Depreciation and Am.	54,008	43,087		203,619	162,225	
EBITDA	**155,020**	**137,139**		**597,038**	**512,713**	
% of total sales	11.7%	11.3%	13.0%	11.4%	11.0%	16.4%
Neutralizing IFRS16 depreciation expenses	36,310	28,697		137,903	106,090	
EBITDA excluding IFRS16	118,710	108,442	9.5%	459,135	406,623	12.9%
% of total sales	9.0%	8.9%		8.8%	8.7%	

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

Year	NIS
2023	3.58
2022*	5.30
2021	3.09
2020	2.74
2019	2.54

* Excluding the net capital gain from the realization of Infinity - NIS 3.37 per share.

1.2.3. Summary of consolidated profit and loss results by quarters for 2023 including the fourth quarter of 2022 (NIS in thousands)

	Q4/23	Q3/23	Q2/23	Q1/23	Q4/22
Sales turnover	1,320,690	1,333,520	1,286,742	1,291,153	1,218,785
Cost of sales and services	1,117,274	1,146,416	1,101,700	1,102,535	1,035,568
Gross profit	**203,416**	**187,104**	**185,042**	**188,618**	**183,217**
% of sales	**15.4%**	**14.0%**	**14.4%**	**14.6%**	**15%**
Selling and marketing expenses	51,275	47,986	45,261	45,176	45,896
General and administrative expenses	51,129	45,839	42,118	41,977	43,269
Operating profit before financial expenses, net,	**101,012**	**93,279**	**97,663**	**101,465**	**94,052**
% of sales	**7.6%**	**7.0%**	**7.6%**	**7.9%**	**7.7%**
Financing expenses, net	18,908	17,007	15,428	16,891	23,854
Operating profit before deduction of taxes on income	82,104	76,272	82,235	84,574	70,198
Taxes on income	20,183	19,507	19,413	19,228	16,953
Net income	**61,921**	**56,765**	**62,822**	**65,346**	**53,245**
% net income	**4.7%**	**4.3%**	**4.9%**	**5.1%**	**4.4%**
Other comprehensive income (after the effect of tax)					
Adjustments arising from translation	(18,232)	12,535	8,651	9,027	1,308
Remeasurement in respect of defined benefit plans	(705)	1,516	1,219	1,250	1,794
Change in fair value of instruments used for hedging cash flow	112	200	(216)	(628)	(375)
Total comprehensive income	43,096	71,016	72,476	74,995	55,972
Net earnings attributable to:					
Shareholders of the Company	56,537	51,439	58,617	60,740	50,134
Non-controlling interests	5,384	5,326	4,205	4,606	3,111
Net profit	**61,921**	**56,765**	**62,822**	**65,346**	**53,245**
Total comprehensive income attributable to:					
Shareholders of the Company	37,774	65,464	68,241	70,386	53,246
Non-controlling interests	5,322	5,552	4,235	4,609	2,726
Total comprehensive income	**43,096**	**71,016**	**72,476**	**74,995**	**55,972**

1.2.4. Summary of consolidated profit and loss results by segments of activity for 2023 compared with 2022 and for the fourth quarter of 2023 compared to the fourth quarter of 2022 (in thousands of NIS)

	3 months ended 31.12.23	3 months ended 31.12.22	Change in %	Year ended 31.12.23	Year ended 31.12.22	Change in %
Revenues according to activity segment:						
Information technology solutions and services, consulting and management in Israel[1]	746,729	601,643	24.1%	2,946,194	2,508,477	17.4%
Information technology solutions and services in the United States[2]	129,966	122,559	6%	487,189	434,901	12.0%
Sales, marketing, and support of software products	105,264	86,866	21.2%	329,727	271,029	21.7%
Cloud infrastructures and computing	395,741	429,639	(7.9%)	1,514,019	1,427,416	6.1%
Training and implementation	34,470	52,774	(34.7%)	177,837	211,958	(16.1%)
Adjustments between segments	(91,480)	(74,696)		(222,861)	(181,092)	
Total revenues	**1,320,690**	**1,218,785**	**8.4%**	**5,232,105**	**4,672,689**	**12.0%**
Operating profit[3]						
Information technology solutions and services, consulting and management in Israel[1]	51,501	38,116	35.1%	198,785	180,359	10.2%
Information technology solutions and services in the United States[2]	23,200	17,187	35.0%	76,168	60,228	26.5%
Sales, marketing, and support of software products	15,091	12,437	21.3%	36,123	24,200	49.3%
Cloud infrastructures and computing	23,372	21,124	10.6%	87,957	76,607	14.8%
Training and implementation	(2,571)	9,769	(126.3%)	11,572	24,883	(53.5%)
Adjustments between segments	(9,581)	(4,581)		(17,186)	(15,789)	
Operating profit	**101,012**	**94,052**	**7.4%**	**393,419**	**350,488**	**12.2%**

[1] Including immaterial activity in Europe

[2] Including immaterial activity in Canada

[3] Does not include capital gain from realization of Infinity subsidiary in the second quarter of 2022

	3 months ended 31.12.23	3 months ended 31.12.22	Year ended 31.12.23	Year ended 31.12.22
	Percentage	Percentage	Percentage	Percentage
Rate of operating profit [3]:				
Information technology solutions and services, consulting and management in Israel[1]	6.9%	6.3%	6.7%	7.2%
Information technology solutions and services in the United States[2]	17.9%	14.0%	15.6%	13.8%
Sales, marketing, and support of software products	14.3%	14.3%	11.0%	8.9%
Cloud infrastructures and computing	5.9%	4.9%	5.8%	5.4%
Training and implementation	(7.5%)	18.5%	6.5%	11.7%
Rate of operating profit in %	**7.6%**	**7.7%**	**7.5%**	**7.5%**

Rate of revenue according to segment of activity:				
Information technology solutions and services, consulting and management in Israel[1]	52.9%	46.5%	54%	51.6%
Information technology solutions and services in the United States[2]	9.2%	9.5%	8.9%	9.0%
Sales, marketing, and support of software products	7.5%	6.7%	6.0%	5.6%
Cloud infrastructures and computing	28.0%	33.2%	27.8%	29.4%
Training and implementation	2.4%	4.1%	3.3%	4.4%
Total revenues in %	**100%**	**100%**	**100%**	**100%**

	3 months ended 31.12.23	3 months ended 31.12.22	Year ended 31.12.23	Year ended 31.12.22
	Percentage	Percentage	Percentage	Percentage
Rate of contribution to operating profit according to segments of activity:				
Information technology solutions and services, consulting and management in Israel[1]	46.6%	38.6%	48.4%	49.2%
Information technology solutions and services in the United States[2]	21.0%	17.4%	18.6%	16.4%
Sales, marketing, and support of software products	13.6%	12.6%	8.8%	6.7%
Cloud infrastructures and computing	21.1%	21.4%	21.4%	20.9%
Training and implementation	(2.3%)	10.0%	2.8%	6.8%
Total operating profit in %	**100%**	**100%**	**100%**	**100%**

(1) Including immaterial activity in Europe
(2) Including immaterial activity in Canada
(3) Does not include capital gain from realization of Infinity subsidiary in the second quarter of 2022

	3 months ended 31.12.23	3 months ended 31.12.22	Change in %	Year ended 31.12.23	Year ended 31.12.22	Change in %
Geographic information:						
Revenues:						
Revenues from customers in Israel	1,245,912	1,149,661	8.4%	4,870,496	4,352,995	11.9%
Revenues from customers in the United States	129,966	122,559	6.0%	487,189	434,901	12.0%
Revenues from customers in Europe	36,292	21,261	70.7%	97,282	65,885	47.7%
Adjustments between segments	(91,480)	(74,696)		(222,862)	(181,092)	
Total revenues	**1,320,690**	**1,218,785**	**8.4%**	**5,232,105**	**4,672,689**	**12.0%**
Operating profit (3)						
Operating profit from customers in Israel	85,425	80,940	5.5%	326,814	300,951	8.6%
Operating profit from customers in the United States	23,200	17,187	35.0%	76,168	60,228	26.5%
Operating profit from customers in Europe	1,968	506	288.9%	7,623	5,098	49.5%
Adjustments between segments	(9,581)	(4,581)		(17,186)	(15,789)	
Total operating profit	**101,012**	**94,052**	**7.4%**	**393,419**	**350,488**	**12.2%**

(3) Does not include capital gain from realization of Infinity subsidiary in the second quarter of 2022

	3 months ended 31.12.23 Percentage	3 months ended 31.12.22 Percentage	Year Ended 31.12.23 Percentage	Year ended 31.12.22 Percentage
Rate of revenues on a geographical basis:				
Revenues from customers in Israel	88.2%	88.9%	89.3%	89.7%
Revenues from customers in the United States	9.2%	9.5%	8.9%	9.0%
Revenues from customers in Europe	2.6%	1.6%	1.8%	1.3%
Total revenues in %	**100%**	**100%**	**100%**	**100%**
Rate of operating profit on a geographical basis:				
Rate of operating profit in Israel	6.9%	7.0%	6.7%	6.9%
Rate of operating profit in the United States	17.9%	14.0%	15.6%	13.8%
Rate of operating profit in Europe	5.4%	2.4%	7.8%	7.7%
Rate of operating profit in %	**7.6%**	**7.7%**	**7.5%**	**7.5%**
Rate of contribution of operating profit on a geographical basis:				
Rate of operating profit in Israel	77.2%	82.1%	79.6%	82.2%
Rate of operating profit in the United States	21.0%	17.4%	18.6%	16.4%
Rate of operating profit in Europe	1.8%	0.5%	1.8%	1.4%
Total geographical operating profit in %	**100%**	**100%**	**100%**	**100%**

1.2.5. Analysis of results of activity by segments of activity for 2023 compared with 2022

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

Revenues

Total revenues from the Information technology solutions and services sector, consulting, and management in Israel totaled in 2023 about 2,946.2 million NIS, compared to about 2,508.5 million NIS in 2022, an increase of about 17.4%.
The sector's revenues in the fourth quarter amounted to approximately NIS 746.7 million, compared to approximately NIS 601.6 million in the corresponding quarter last year, an increase of approximately 24.1%.

Operating profit

The operating profit from Information technology solutions and services, consulting, and management in Israel amounted to NIS 198.8 million (6.7% of the segment's revenues) in 2023, compared with NIS 180.4 million in 2022 (7.2% of the segment's revenues), an increase of 10.2%.
The segment's operating profit in the fourth quarter amounted to approximately NIS 51.5 million (approximately 6.9% of the segment's revenues), compared to approximately NIS 38.1 million in the corresponding quarter last year (approximately 6.3% of the segment's revenues), an increase of approximately 35.1%.

The increase in revenues and operating profit in 2023, and in particular in the fourth quarter of the year, compared to the corresponding periods last year, results from organic growth in the scope of activity and profit in all areas of activity of the sector, with an emphasis on expert services, Defense, Cyber, Digital, and core systems activities.
The increase in the profitability rate of the sector in the fourth quarter is, in addition, due to the increase in potential working hours in the quarter compared to the corresponding quarter last year and operational efficiency, and this, despite a negative effect on the profit as a result of the recruitment of hundreds of company employees into the reserves in the fourth quarter.

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

	3 months ended 31.12.23	3 months ended 31.12.22	Change in %	Year ended 31.12.23	Year ended 31.12.22	Change in %
Revenues	35.3	35.1	0.4%	132.2	129.4	2.1%
Operating profit	6.3	4.9	28.7%	20.7	17.9	15.6%
Rate of profit	17.9%	14.0%		15.7%	13.8%	

Revenues

Revenues from the information technology solutions and services segment in the United States in 2023 amounted to approximately NIS 487.2 million, compared to approximately NIS 434.9 million in 2022, an increase of approximately 12%.
The segment's revenues in the quarter amounted to about 130 million NIS, compared to about 122.6 million NIS in the corresponding quarter last year, an increase of about 6%.

Operating profit

The segment's operating profit in 2023 amounted to approximately NIS 76.2 million (approximately 15.6% of the segment's revenues), compared to approximately NIS 60.2 million (approximately 13.8% of the segment's revenues) in 2022, an increase of approximately 26.5%.
The segment's operating profit in the fourth quarter amounted to approximately 23.2 million NIS (approximately 17.9% of the segment's revenues), compared to approximately 17.2 million NIS (approximately 14% of the segment's revenues) in the corresponding quarter last year, an increase of approximately 35%.

The growth in revenues and operating profit in the segment, in 2023 and in the fourth quarter, stems from an increase in the scope of activity, with an emphasis on the field of GRC solutions for the financial sector, as well as from Marketing and sales of software products.
The improvement in the profitability rate in the sector, compared to the corresponding periods last year, is mainly due to an increase in the scope of activity, and an improvement in operational efficiency accompanied by a higher utilization rate of the employees. The great improvement in the profitability rate in the fourth quarter is also due to a significant increase in sales transactions of software products compared to the corresponding quarter last year.

Sales, marketing, and support of software products

Revenues

Revenues from the sales, marketing, and support segment for software products in the period amounted to NIS 329.7 million, compared to approximately NIS 271 million in 2022, an increase of approximately 21.7%.
The segment's revenues in the fourth quarter amounted to approximately 105.3 million NIS, compared to approximately 86.9 million NIS, in the corresponding quarter last year, an increase of approximately 21.2%.

Operating profit

Operating profit from the software product sales, marketing, and support segment in the period amounted to NIS 36.1 million (11% of the segment's revenues), compared with NIS 24.2 million (8.9% of the segment's revenues) in the corresponding period last year, an increase of 49.3%.
The segment's operating profit in the fourth quarter amounted to approximately 15.1 million NIS (approximately 14.3% of the segment's revenues), compared to approximately 12.4 million NIS (approximately 14.3% of the segment's revenues) in the corresponding quarter last year, an increase of approximately 21.3%.

The increase in revenue and operating profit of the sector in 2023 and in the fourth quarter, and the improvement in the rate of operating profitability in 2023, compared to the corresponding periods last year, are due to the increase in the scope of the segment's activity and the consolidation for the first time of Zebra starting in the first quarter of 2023. It should be noted in this regard that Zebra is mainly engaged in distribution and marketing of software products in the fields of Cyber protection and data communication, and in accordance with 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 period amounted to NIS 1,514 million, compared to NIS 1,427.4 million in the corresponding period last year, an increase of 6.1%.
The segment's revenues in the fourth quarter amounted to approximately NIS 395.7 million, compared to approximately NIS 429.6 million in the corresponding quarter last year, a decrease of approximately 7.9%.

Operating profit

The operating profit from the Cloud infrastructure and computing segment in the period amounted to NIS 88 million (5.8% of the segment's revenues), compared with NIS 76.6 million (5.4% of the segment's revenues) in the corresponding period last year, an increase of 14.8%.
The segment's operating profit in the fourth quarter amounted to approximately NIS 23.4 million (approximately 5.9% of the segment's revenues), compared to approximately NIS 21.1 million (approximately 4.9% of the segment's revenues) in the corresponding quarter last year, an increase of approximately 10.6%.
The increase in revenues and operating profit in 2023 results from an increase in the scope of activity in the various fields of activity, and the first consolidation of RDT's results (for details, see note 3b to the financial statements).
The decrease in revenues compared to the increase in the operating profit of the sector, in the fourth quarter, compared to the corresponding quarter last year, as well as the increase in the profit rate in 2023 and in the fourth quarter, compared to the corresponding periods last year, is due, among other things, to a significant increase in the volumes of transactions in the Cloud sector, including transactions that are presented on a net basis.

Training and implementation

Revenues

Revenues from the Training and implementation segment during the period amounted to NIS 177.8 million, compared with NIS 212 million in the corresponding period last year, a decrease of 16.1%.
The segment's revenues in the fourth quarter amounted to approximately NIS 34.5 million, compared to approximately NIS 52.8 million in the corresponding quarter last year, a decrease of approximately 34.7%.

Operating profit

Operating profit from the Training and implementation segment in the period amounted to NIS 11.6 million (6.5% of the segment's revenues), compared with a profit of NIS 24.9 million (11.7% of the segment's revenues) in the corresponding period last year, a decrease of 53.5 %.
In the fourth quarter, the Training and implementation segment recorded an operating loss of approximately NIS 2.6 million, compared to an operating profit of approximately NIS 9.8 million (approximately 18.5% of the sector's revenues) in the corresponding quarter last year.

The decrease in revenues and operating profit of the segment in 2023 and the fourth quarter and the transition to an operating loss in the fourth quarter, reflects a decrease in demand for training activities, compared to the corresponding periods last year, against the background of the decrease in demand for workers in the high-tech industry. In addition, the training activity was affected in the fourth quarter due to the limitations of the Home Front Command in the first weeks of the war, which limited the ability to hold courses at the Company's facilities.
In this regard, it should be noted that the Training and implementation segment constitutes less than 4% of the scope of the Company's activity and that, as stated in section 1.1.2., as a general rule, the trend of reducing manpower in high-tech companies simultaneously has a positive effect on the ability to recruit and retain employees and trim to half of wage increases in the Company as a whole.

1.2.6. Commitments and special events

Distribution of dividend

Date of distribution	Dividend rate (in agorot)	Amount of dividend (NIS millions)
16.04.2023	59	37.5
05.06.2023	71	45.1
03.09.2023	69	43.8
Total for 2023	**199**	**126.4**
Total for 2022*	452	284.3

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

The Company's dividend distribution policy is a dividend distribution of up to 75% of the net annual profit attributable to the shareholders. The dividend will be distributed once per quarter subject to the distribution tests in the law, which are examined by the Board of Directors at any relevant time.
On November 9, 2023, the Company's board of directors decided to postpone the date of the decision on the distribution of the dividend for the profits of the third quarter of 2023 to the date of approval of the annual reports of 2023, and this without changing the Company's dividend distribution policy. The aforementioned postponement came as a precautionary measure, against the background, of the uncertainty regarding the impact of Iron Swords War.
In the past five years (2019-2023), the Company distributed a total of NIS 797 million in dividends to its shareholders.

Rating

On March 28, 2023, Midroog confirmed an Aa3 il issuer rating with a stable outlook for the Company`s Series B debentures.

The Company has a non-marketable commercial paper rating ("NAAM") None/NOO P-1.il.

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

Analysis of financial position as of December 31, 2023 and December 31, 2022

Balances of liquid assets and financial indices

	As of 31.12.2023	As of 31.12.2022	Change
Cash and cash equivalents	640,208	839,313	(199,105)
Short-term credit	(487,917)	(521,287)	33,370
Long-term credit	(468,456)	(699,873)	231,417
"Net" debt	(316,165)	(381,847)	65,682
Total balance sheet	4,084,180	4,002,776	81,404
Rate of "net" debt to balance sheet	7.7%	9.5%	
Current ratio	1.2	1.2	
Balance of retained earnings	665,981	561,777	104,204
Total equity	1,107,472	964,875	142,597
Rate of equity to balance sheet	27.1%	24.1%	

Condensed consolidated statements of financial position (NIS in thousands)

	As of 31.12.2023	As of 31.12.2022	Change
Cash and cash equivalents	640,208	839,313	(199,105)
Trade receivable and unbilled receivables, net	1,676,969	1,481,761	195,208
Inventories	146,089	118,326	27,763
Goodwill	918,829	898,516	20,313
Intangible assets	98,405	99,256	(851)
All other assets (Fixed Assets, Rights of Use, etc.)	603,680	565,604	38,076
Total assets	**4,084,180**	**4,002,776**	**81,404**
Short-term bank credit Liabilities to banking corporations and other service providers	956,230	1,221,160	(264,930)
Trade payables	784,599	620,609	163,990
Deferred income	298,908	317,032	(18,124)
Liabilities from leases	215,756	181,608	34,148
Liabilities from Put Options to NCI and contingent liabilities from business combinations	91,907	117,923	(26,016)
All other liabilities	629,308	579,569	49,739
Total liabilities	**2,976,708**	**3,037,901**	**(61,193)**

The changes in the Company's total assets were affected in the customers and inventory section, in light of an increase in the scope of activity and the purchase of Zebra, which were offset by a decrease in the cash and cash equivalent section (which were mainly used for the net repayment of bank loans and bonds, dividend distribution and the purchase of Zebra).

The decrease in total liabilities is mainly due to a decrease in credit items from financial institutions and other credit providers in light of the reduction of the Company's financial debt during 2023, and a decrease in liabilities from PUT option to Non-Controlling Interests, in light of the partial exercise of the option in several subsidiaries (and the corresponding increase in holding rates). The aforementioned decrease was partly 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 for the lease.

Condensed Statements of cash flow (NIS in thousands)

	Year ended 31.12.2023	Year ended 31.12.2022	For the period of three months ended 31.12.2023	For the period of three months ended 31.12.2022
Net cash provided by operating activities:				
Net income	246,855	354,481	61,921	53,245
Adjustments to the profit and loss items	351,218	148,550	94,703	75,905
Changes in asset and liability items	45,271	(14,559)	206,867	186,481
Cash paid and received for interest and taxes	(147,145)	(101,081)	(30,580)	(31,589)
Net cash provided by (used in) operating activities	**496,199**	**387,391**	**332,911**	**284,042**
Net cash provided by investing activities:				
Purchase of property, plant, and equipment	(38,866)	(38,757)	(6,264)	(8,405)
Acquisition of companies and activities first time consolidated	(38,034)	(41,394)	-	(389)
Realization of Subsidiary, which left consolidation, net of tax	-	115,341	-	-
Capitalization of R&D costs	(2,250)	-	(500)	-
Others (net)	3,398	1,244	(230)	748
Net cash provided by (used in) investing activities	**(75,752)**	**36,434**	**(6,994)**	**(8,046)**
Repayment of liabilities in respect of business combinations				
Net cash used in financing activities				
Receipt (repayment) of credit, net	(258,801)	(167,600)	(103,582)	(99,295)
Dividends paid	(126,409)	(284,275)	-	(34,592)
Repayment of capital lease obligation	(137,896)	(107,135)	(36,207)	(31,184)
Repayment of liabilities in respect of business combinations	(15,211)	(3,132)	(2,739)	-
Dividend paid to non-controlling interests	(27,242)	(45,368)	(1,947)	(6,584)
Repayment of liabilities in respect of Put options	(29,352)	(3,359)	-	-
(Repayment) receipt of liabilities in respect of Debentures	(33,959)	471,476	-	178,385
Net cash used in financing activities	**(628,870)**	**(139,393)**	**(144,475)**	**6,730**

Cash flows from operating activities

In 2023, the Company recorded a positive cash flow from operating activities amounting to NIS 496.2 million compared with a positive cash flow from operating activities amounting to NIS 387.4 million in the corresponding period last year. An increase of about NIS 109 million.
In the past 5 years (2019-2023), the Company generated a positive flow from operating activities amounting to cumulatively NIS 1,901.4 million.

Cash flows from investing activities

Cash flow used for investing activities for the Company in 2023 amounted to NIS 75.8 million compared with a cash flow that resulted from investing activities(positive flow from investment activity) amounting to NIS 36.4 million in the corresponding period last year.
The main difference between the year 2023 and the corresponding period last year is attributed to a total of approximately NIS 115.3 million received during the corresponding period (second quarter 2022), for the sale of most of the company's holdings in the subsidiary company Infinity (net amount after tax payment).
Cash flows used in financing activities
Cash flows used in financing operations in 2023 amounted to NIS 628.9 million (NIS 139.4 million in the corresponding period last year). The main increase in the cash flow used for financing operations stems from an increase in the net repayment of credit from banking corporations and debenture holders, in parallel with the decrease in the scope of the Company's financial debt (see also explanations for the report on the financial position).

Average short-term credit (NIS in thousands)

	As of 31.12.2023	As of 31.12.2022
Trade receivables	1,518,568	1,309,576
Trade payables	646,467	527,054

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

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

As of December 31, 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 year ended 31.12.2023	For the year ended 31.12.2022
Opening balance	964,875	878,054
Net income	246,855	354,481
Dividend paid	(126,409)	(284,275)
Purchase of rights and dividend to non-controlling interests (net)	(8,684)	(25,972)
Translation adjustments	11,449	35,467
Foreign Exchange differences	16,106	910
Other – net	3,280	6,210
Closing balance	**1,107,472**	**964,875**

2. Exposure to market risks and ways of managing them

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

3. Aspects of corporate governance

3.1. Donations policy

The Company works for the community through cash donations, donations of computer equipment and development of systems, training courses, participation in expenses, and use of infrastructure.
In addition, the Company has set itself the goal, in the field of social responsibility, to create a channel of influence with which the Company will be identified and which will include long-term projects, some of which will be an opportunity for partnership and involvement of employees.
The Company does not have a fixed policy regarding donations, each request for a donation is considered individually and in accordance with the Company's donation procedure. The Company has no commitment to provide donations in the future.
This year, the Company donated about NIS 548 thousand in cash.

<u>Engagement of Matrix and its employees for the national effort in the Iron Swords War</u>

As part of the national effort, Matrix and its employees donated a total of NIS 800,000 (of which NIS 230,000 was donated by the Company), which was transferred through the Business Forum to support the residents of the Gaza Strip Wrap area.
In addition to the joint financial contribution, a large number of initiatives were carried out in the Company, including these:

- Providing support services, free of charge, in Command-and-Control Systems of shelled Municipalities (even under fire).
- Setting up offices, free of charge, in order to be used as a warehouse, for voluntary organizations, including to collect and transport equipment.
- Donation of computers for the benefit of classrooms for the residents of Gaza Strip Wrap area and for the benefit of the Oncology Department at a hospital in this area.
- Installation, by Company employees, of dedicated systems in security bodies and IDF units for reinforcement and assistance in relevant tasks in the worlds of development, cyber, data, and AI.
- Development of a solution to streamline the rehabilitation system for war victims in a hospital in this area.
- The "Resonance Project” - the Company and its employees join the “Shaked “ tribe, the scout tribe of Kibbutz Kfar Gaza.

3.2. Directors with accounting and financial expertise

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

3.3. Independent directors

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

3.4. Disclosure regarding the Internal Auditor in the corporation

1) Name of the Internal Auditor: Israel Gvirtz, C.P.A.
2) Date of commencing tenure – January 29, 2023
   The Internal Auditor was appointed pursuant to the recommendation of the Audit Committee and a resolution of the Board of Directors of the Company based on her qualifications as detailed below.
3) Qualifications of the Internal Auditor
   The internal auditor is a certified public accountant, a partner in Fan Kane Control Management Ltd(Grant Thornton Israel), who serves as an internal auditor in several organizations, and is a member of the Association of Internal Auditors in Israel.
4) Officer supervisor of the Internal Auditor
   The officer supervisor of the Internal Auditor in the Company is the CEO of the Company, Mr. Moti Gutman.

5) Audit plan

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

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

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

6) Scope of the transaction

	For the year ended 31.12.2023	For the year ended 31.12.2022
Remuneration (NIS in thousands)	326	368

According to the Board of Directors of the Company, the scope of the Internal Auditor's work and work program in 2023 are reasonable in the circumstances and have the potential to fulfill the goals of the Company's internal audit.

7) Professional standards

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

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

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

3.5. Disclosure regarding auditors' fees

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

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

	2023	2022
Remuneration for audit services, related services, and consulting and tax services related to the audit	3,580	3,712

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

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

1) Internal enforcement program in the Company

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

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

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

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

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

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

Critical accounting estimates

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

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

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

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

See also note 9 to the financial statements.

March 10, 2024

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 on the date of issue(1):	295,249 on the initial issue and 180,366 on the expansion of the series
Balance of nominal value at December 31, 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 is unlinked
Value in the financial statements on December 31, 2023 (amortized cost according to the effective interest method):	444,506
Interest accrued on December 31, 2023:	8,111
Stock exchange value at December 31, 2023:	445,896
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 5.9 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 is 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

Disclosure item	Details regarding the Series B debentures (2)
Early redemption or forced conversion of the debentures:	The Company shall be entitled to 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 Company as of the date of 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 December 31, 2023, as follows:

Security	Balance of nominal value of the security in circulation as of 31.12.2023	Balance of nominal value of the security in circulation immediately prior to the date of the Report	Financial covenant	Actual covenant as of 31.12.2023
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%	7.7%
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 Trust Deed) must not exceed 5	0.52
Series B debenture	441, 656	441, 656	Shareholders' minimal Equity (as defined in the Trust Deed) must be not less than NIS 275,000 thousand	1,107,472

CHAPTER C

Consolidated Financial Statements Year Ended 31.12.2023

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AUDITORS' REPORT

To the Shareholders of

MATRIX IT LTD.

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

We have audited the components of internal control over financial reporting of Matrix IT Ltd. and its subsidiaries (collectively, "the Company") as of December 31, 2023. Control components were determined as explained in the following paragraph. The Company's board of directors and management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the components of internal control over financial reporting included in the accompanying periodic report for said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audit.

We did not examine the Components of Internal Control of certain subsidiaries, whose assets and revenues included in consolidation constitute approximately 10.1% and 10.2% accordingly as of December 31, 2023 and for the year ended December 31, 2023. The Components of Internal Control of these companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to Components of Internal Control included for those companies, is based on the reports of the other auditors.

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

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

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

In our opinion, the Company effectively maintained, in all material respects, the audited control components as of December 31, 2023.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2023 and 2022 and for each of the three years in the period ended December 31, 2023 and our report dated March 10, 2024 expressed an unqualified opinion thereon based upon our audit and other auditors` reports.

Tel Aviv, Israel
March 10, 2024

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AUDITORS' REPORT

To the Shareholders of

MATRIX IT LTD.

We have audited the accompanying consolidated statements of the financial position of Matrix IT Ltd. ("the Company") as of December 31, 2023 and 2022, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2023. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiary, whose assets included in consolidation constitute approximately 10.1% and 9.6% of total consolidated assets as of December 31, 2023 and 2022 accordingly, and whose revenues included in consolidation constitute approximately 10.2%, 9.9%, and 11% of total consolidated revenues for each of the three year period ended December 31, 2023, 2022 and 2021 accordingly. The financial statements of this company were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2023 and 2022, and the results of their operations, changes in their equity and cash flows for each of the three years in the period ended December 31, 2023, in conformity with International Financial Reporting Standards ("IFRS") and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

We have also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting", as amended, the Company's components of internal control over financial reporting as of December 31, 2023 and our report dated March 10, 2024 included an unqualified opinion on the effective maintenance of those components.

Building a better working world

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Key matters in the audit

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

Examination of goodwill impairment

As described in note 9 to the consolidated financial statements, the balance of goodwill in the company's books is in the amount of NIS 918,829 thousand as of December 31, 2023. The company's management examines goodwill impairment once a year, as of December 31, or more often, if events or changes in circumstances indicate this that there is an impairment. Examining the impairment of goodwill is determined by examining the recoverable amount of the cash-generating unit to which the goodwill was allocated. When the recoverable amount is lower than the balance in the financial statements, an impairment loss attributed primarily to goodwill is recognized.
The process of examining the decline in value of a cash-generating unit to which goodwill has been assigned, is based on significant estimates involving uncertainty and on the subjective evaluations of management and those charged with corporate governance. A change in these estimates or assessments may have a material effect on the balance of goodwill in the financial statements.
The matter was identified as a key matter in the audit because it refers to material sections and disclosures in the financial statements.

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

The main procedures we performed in connection with this key matter as part of our audit are:

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

Tel Aviv, Israel
March 10, 2024

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - NIS In Thousands

	Note	December 31 2023	December 31 2022
CURRENT ASSETS:			
Cash and cash equivalents	4	640,208	839,313
Trade receivables and unbilled receivables, net	5	1,676,969	1,481,761
Income tax receivables		53,376	27,341
Other account receivables	6	101,680	112,750
Inventories	7	146,089	118,326
		2,618,322	2,579,491
NON-CURRENT ASSETS:			
Investments and other loans	3a`	16,800	16,800
Prepaid expenses		32,785	39,287
Right-of-use assets	13	213,933	180,344
Property, plant and equipment	8	95,358	98,165
Goodwill	9	918,829	898,516
Intangible assets	9	98,405	99,256
Deferred taxes	15e`	89,748	90,917
		1,465,858	1,423,285
		4,084,180	**4,002,776**

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - NIS In Thousands

	Note	December 31 2023	December 31 2022
CURRENT LIABILITIES:			
Credit from banks and others	20,10a`	403,694	471,454
Current maturities debenture	19	84,080	49,833
Current maturities lease liability	13	109,448	105,853
Trade payables	11	784,599	620,609
Income taxes payable		14,770	18,379
Other accounts payable	12	80,965	66,306
Employees and payroll accruals		447,510	407,309
Liabilities in respect of business combinations	3	-	6,774
Put options of non-controlling interests	3	34,065	93,113
Deferred revenues		281,235	286,172
		2,240,366	2,125,802
NON-CURRENT LIABILITIES:			
Loans from banks and others	20, 10b`	108,030	274,525
Debenture	19	360,426	425,348
Deferred revenues		17,673	30,860
Put options of non-controlling interests	3	54,071	7,432
Lease liabilities	13	106,308	75,755
Deferred taxes	15	76,958	72,531
Liabilities in respect of business combinations	3	3,771	17,378
Employee benefit liabilities	14	9,105	8,270
		736,342	912,099
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	17		
Share capital and capital reserves		382,606	354,632
Retained earnings		665,981	561,777
		1,048,587	916,409
Non-controlling interests		58,885	48,466
TOTAL EQUITY		1,107,472	964,875
		4,084,180	**4,002,776**

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

March 10, 2024			
Date of approval of the financial statements	Guy Bernstein Chairman of the Board	Moti Gutman Chief Executive Officer	Nevo Brenner Chief Financial Officer

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (NIS In Thousands -except per share data)

	Note	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Revenues	21a`	5,232,105	4,672,689	4,360,148
Cost of revenues	21b`	4,467,925	4,000,682	3,729,745
Gross profit		764,180	672,007	630,403
Selling and marketing expenses	21c`	189,698	166,246	147,555
General and administrative expenses	21d`	181,063	155,273	153,456
Gain from realization of subsidiary		-	150,059	-
Operating income		393,419	500,547	329,392
Financial expenses	21e`	82,738	50,801	45,558
Financial income	21e`	14,505	5,020	360
Income before taxes on income		325,186	454,766	284,194
Taxes on income	15f`	78,331	100,285	65,446
Net income		246,855	354,481	218,748
Other comprehensive income (net of tax effect):				
Amounts that will not be reclassified subsequently to profit or loss:				
Actuarial gain (loss) from defined benefit plans		3,280	8,923	9,017
Amounts that will be, or, that have been reclassified to profit or loss, when specific conditions are met:				
Foreign currency translation adjustments of operations abroad		11,981	35,842	(12,031)
Change in Fair Value of hedge instrument for cash hedging		(532)	(375)	-
Total comprehensive income		**261,584**	**398,871**	**215,734**
Net income attributable to:				
Equity holders of the Company		227,333	334,669	195,341
Non-controlling interests		19,522	19,812	23,407
		246,855	**354,481**	**218,748**
Total comprehensive income attributable to:				
Equity holders of the Company		241,865	379,261	192,542
Non-controlling interests		19,719	19,610	23,192
		261,584	**398,871**	**215,734**
Net earnings per share attributable to equity holders of the Company (in NIS):	22			
Basic net income		3.58	5.32	3.13
Diluted net income		3.58	5.30	3.09

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY – NIS In Thousands

	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
Balance as of January 1, 2023	68,002	305,894	(7,982)	561,777	(19,587)	10,186	(1,881)	916,409	48, 466	964,875
Net income	-	-	-	227,333	-	-	-	227,333	19,522	246,855
Foreign currency translation reserve from operations abroad and Forex hedging	-	-	-	-	11,252	-	-	11,252	197	11,449
Actuarial gain from defined benefit plans	-	-	-	3,280	-	-	-	3,280	-	3,280
Total other comprehensive gain	-	-	-	3,280	11,252	-	-	14,532	197	14,729
Total comprehensive income	-	-	-	230,613	11,252	-	-	241,865	19,719	261,584
Exercise of employee phantom options	253	3,553	-	-	-	-	(3,806)	-	-	-
Transaction with non-controlling interests	-	-	-	-	-	-	616	616	2,012	2,628
Dividend paid	-	-	-	(126,409)	-	-	-	(126,409)	-	(126,409)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	(11,312)	(11,312)
Share-based payment	-	-	-	-	-	-	16,106	16,106	-	16,106
Balance as of December 31, 2023	68,255	309,447	(7,982)	665,981	(8,335)	10,186	11,035	1,048,587	58, 885	1,107,472

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY – NIS In Thousands

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY - NIS In Thousands

	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
Balance as of January 1, 2021	67,245	293,054	(7,982)	444,573	(43,440)	10,186	12,672	776,308	48,604	824,912
Net income	-	-	-	195,341	-	-	-	195,341	23,407	218,748
Foreign currency translation reserve from operations abroad	-	-	-	-	(11,816)	-	-	(11,816)	(215)	(12,031)
Actuarial gain from defined benefit plans	-	-	-	9,017	-	-	-	9,017	-	9,017
Total other comprehensive gain (loss)	-	-	-	9,017	(11,816)	-	-	(2,779)	(215)	(3,014)
Total comprehensive income	-	-	-	204,358	(11,816)	-	-	192,542	23,192	215,734
Exercise of employee phantom options	458	8,391	-	-	-	-	(8,849)	-	-	-
Acquisition of non-controlling interests	-	-	-	-	-	-	(670)	(670)	2,936	2,266
Dividend paid	-	-	-	(146,471)	-	-	-	(146,471)	-	(146,471)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	(21,690)	(21,690)
Share-based payment	-	-	-	-	-	-	3,303	3,303	-	3,303
Balance as of December 31, 2021	67,703	301,445	(7,982)	502,460	(55,256)	10,186	6,456	825,012	53,042	878,054

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

CONSOLIDATED STATEMENTS OF CASH FLOWS – NIS In Thousands

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Cash flows from operating activities:			
Net income	246,855	354,481	218,748
Adjustments to reconcile net income to net cash provided by operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	203,619	162,225	147,737
Taxes on income	78,331	100,285	65,445
Change in employee benefit liabilities	4,966	671	(3,276)
Other financial expenses, net	39,196	21,745	27,873
Revaluation of long-term loans from banks	(535)	(26)	(240)
Revaluation of liabilities in respect of business combinations	(348)	417	298
Capital gain from sale of property, plant and equipment	(292)	(197)	(78)
Share-based payment	16,106	1,330	3,069
Gain from realization of Subsidiary	-	(150,059)	-
Increase in value of put options of non-controlling interests	10,175	12,159	14,811
	351,218	148,550	255,639
Changes in asset and liability items:			
Increase in trade receivables	(73,925)	(77,873)	(341,772)
Decrease (increase) in other accounts receivable and prepaid expenses	22,029	(7,898)	10,660
Decrease (increase) in inventories	(12,424)	(47,062)	14,996
Increase in trade payables	84,766	65,191	107,406
Increase in employee benefit liabilities, deferred revenues and other accounts payable	24,825	53,083	24,846
	45,271	(14,559)	(183,864)
Cash paid and received during the year for:			
Interest paid	(54,917)	(28,408)	(21,257)
Interest received	14,505	-	-
Taxes paid	(113,262)	(91,991)	(76,251)
Taxes received	6,529	19,318	26,205
	(147,145)	(101,081)	(71,303)
Net cash provided by operating activities	496,199	387,391	219,220

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

CONSOLIDATED STATEMENTS OF CASH FLOWS – NIS In Thousands

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment	3,398	1,244	3,786
Purchase of property, plant and equipment	(38,866)	(38,757)	(35,080)
Capitalization of Research &Development costs	(2,250)	-	-
Acquisition of initially consolidated subsidiaries (a)	(38,034)	(41,005)	(20,191)
Payment of initially consolidated subsidiary	-	(389)	(1,693)
Proceeds from Disposal of Subsidiary	-	143,641	-
Tax payment of Disposal of Subsidiary	-	(28,300)	-
Net cash provided by (used in) investing activities	(75,752)	36,434	(53,178)
Cash flows from financing activities:			
Change in short-term credit from banks and other credit providers, net	(35,626)	(24,441)	117,131
Receipts of long-term loans from banks and others	-	90,000	120,000
Repayment of long-term loans from banks and others	(223,175)	(233,159)	(215,828)
Dividend paid	(126,409)	(284,275)	(146,471)
Repayment of liabilities in respect of business combinations	(15,211)	(3,132)	(5,937)
Repayment of capital lease obligation	(137,896)	(107,135)	(91,137)
Dividend paid to non-controlling interests	(27,242)	(45,368)	(36,180)
Repayment of liabilities in respect of NCI Options	(29,352)	(3,359)	(5,376)
Proceeds from issuance of Debenture	-	471,476	-
Repayment of Debenture	(33,959)	-	-
Net cash provided by (used in) financing activities	(628,870)	(139,393)	(263,798)
Exchange rate differences on balances of cash and cash equivalents	9,318	20,749	(12,373)
Increase (Decrease) in cash and cash equivalents	(199,105)	305,181	(110,129)
Cash and cash equivalents at the beginning of the year	839,313	534,132	644,261
Cash and cash equivalents at the end of the year	**640,208**	**839,313**	**534,132**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS - NIS In Thousands

	Year Ended December 31, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
(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)	(2,550)
Property, plant and equipment	(287)	(2,315)	(1,261)
Long term Deposits	-	(2)	(432)
Inventories	(15,339)	(8,694)	-
Deferred taxes	(350)	(2,363)	(202)
Goodwill	(20,869)	(36,322)	(23,537)
Intangible assets	(21,158)	(12,007)	(11,073)
Other short-term liabilities	25,081	4,801	561
Employee benefit liabilities	129	216	3,129
Deferred taxes provision	4,867	2,761	3,006
Liability to previous controlling shareholder	-	-	2,432
Liability of put options to non-controlling interests	26,104	-	3,053
Non-controlling interests	-	-	2,936
Long term loan	-	-	109
Lease liabilities	-	-	-
Liability in respect of business combinations	-	14,751	3,638
	(38,034)	**(41,005)**	**(20,191)**
(b) Significant non-cash transactions:			
Right-of-use asset recognized with corresponding lease liability	171,606	143,762	108,501
	171,606	143,762	108,501

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

CONSOLIDATED STATEMENTS OF CASH FLOWS - NIS In Thousands

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
(c) Disposal of consolidated subsidiary:			
The subsidiary`s assets and liabilities at date of disposal:			
Working capital (excluding cash and cash equivalents)	-	(24,707)	-
Investment in Securities	-	16,745	-
Property, plant and equipment	-	2,615	-
Deferred taxes	-	223	-
Goodwill	-	1,470	-
Employee benefit liabilities	-	(51)	-
Non-controlling interests	-	(2,713)	-
Gain on disposal of Subsidiary	-	150,059	-
	-	**143,641**	**-**

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

NOTE 1:- GENERAL

a. Matrix IT Ltd. ("the Company") was incorporated in Israel and began its business operations on September 12, 1989. The Company is considered an Israeli resident. The company is a public company, traded on Tel- Aviv Stock Exchange. The Company's registered address is 3 Abba Even Boulevard, Herzliya, Israel. The controlling shareholder of the Company is Formula Systems (1985) Ltd. ("Formula Systems"), which is controlled by Asseco Poland S.A., a Polish public company, traded on the Warsaw Stock Exchange, which holds 25.8% of the share capital of Formula Systems.(see regulation 21(a) – in chapter “Additional company details”).

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

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

b. **Definitions:**

In these financial statements:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

1. Basis of preparation of the financial statements:

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

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

2. Measurement basis:

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

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

3. Consistent Accounting Policies

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

b. Main assessments, estimates and assumptions in the preparation of the financial statements

Assessments:

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

- Recognizing revenue on a gross or net basis:

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

- Determining the timing of satisfaction of performance obligations:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

Estimates and assumptions:

In the process of preparation of the financial statements, management requires to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues, and expenses.
In formulating the accounting estimates, the company's management is based on experience, various facts, external factors, and reasonable assumptions, depending on the circumstances. The estimates and assumptions underlying them are regularly reviewed. The changes in the accounting estimates are credited in the period in which the change in the estimate is made.
The following are the main assumptions made in the financial statements in connection with uncertainties as of the reporting date and critical estimates calculated by the group and for which a material change in the estimates and assumptions may change the value of assets and liabilities in the financial statements in the following reporting year:

- Impairment of goodwill:

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

- Deferred tax assets:

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

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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

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

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

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

- Measuring the progress toward satisfaction of a performance obligation:

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

- Lease extension and/or termination options:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

c. Consolidated financial statements:

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

Non-controlling interests of Subsidiaries represent the non-controlling shareholders' share of the total comprehensive income (loss) of the Subsidiaries and their share of the net assets at fair value upon the acquisition of the Subsidiaries. The non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company.

Changes in the holding rate in a subsidiary company, which does not lead to a situation of loss of control, are recognized as a change in capital, by adjusting the Non-controlling interests that do not confer control against the capital attributed to the company's shareholders, and by deducting/adding consideration paid or received.

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

1. Functional currency and presentation currency:
The presentation currency of the financial statements is the NIS.
The currency of activity is the currency of the main economic environment in which the company operates.
The Group determines the functional currency of each Group entity, including companies accounted for at equity.
2. Index-linked monetary items:
Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at the end of each reporting period according to the terms of the agreement.

e. Cash equivalents:

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

f. Short-term deposits:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

g. Inventories:

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

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

h. Financial instruments:

1. Financial assets:

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

Debt instruments are measured at amortized cost when:

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

2. Impairment of financial assets:

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

h. Financial instruments (Cont.):

3. Derecognition of Financial assets:

A financial asset is derecognized only when:

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

4. Financial liabilities:

Financial liabilities measured at amortized cost:

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

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

- Financial liabilities at fair value through profit or loss such as derivatives;
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- Financial guarantee contracts;
- Commitments to provide a loan at a below-market interest rate;
- Contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies.

5. Derecognition of financial liabilities:

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is discharged or canceled or expires.

6. Put option granted to non-controlling interests:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

i. Hedging accounting:

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

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

Hedging transactions are handled as follows:

The effective part of the changes in the fair value of the hedging instrument is recognized in other comprehensive income (loss) while the ineffective part is recognized immediately in profit or loss.

Other comprehensive gain (loss) is transferred to profit or loss when the results of the hedging transaction are charged to profit or loss, for example, in periods when interest income or interest expense is recognized or when a forecast sale occurs. When the hedged item is a non-financial asset or liability, its cost also includes the amount of profit (loss) from the hedging instrument.

j. Leases:

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

For leases in which the Company is the lessee, the Company recognizes on the commencement date of the lease a right-of-use asset and a lease liability. The Company has elected to apply the practical expedient in the Standard and does not separate the lease components from the non-lease components (such as management and maintenance services, etc.) included in a single contract.
Leases that entitle employees to a company car as part of their employment terms are accounted for as employee benefits, in accordance with the provisions of IAS 19 and not as subleases.

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

j. Leases (Cont.)

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

	Years	Mainly
Land	3-5	3
Motor vehicles	3	3

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

k. Business combinations and goodwill:

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

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

A Put option issued by the group for rights that do not confer control is handled in accordance with the expected purchase approach, that is, the starting assumption underlying the method is that the option will be exercised, therefore, the parent company in practice owns the holding percentage of the subsidiary's shares after the exercise of the put option. A Put option issued by the group to Non-controlling interests in exchange for cash or another financial asset is recognized as a liability at the present value of the realization price of the option.

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

Goodwill is initially measured at a cost that represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

l. Property, plant, and equipment:

Property, plant, and equipment are measured at cost, including directly attributable costs, less accumulated depreciation, accumulated impairment losses, and any related investment grants and excluding day-to-day servicing expenses.
An asset is depreciated from the time it is available for use, that is when it has reached the location and condition necessary for it to be able to operate in the manner intended by management.
Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

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

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Group and intended to be exercised) and the expected life of the improvement.
The useful life, depreciation method, and residual value of an asset are reviewed at least each year-end, and any changes are accounted for prospectively as a change in the accounting estimate. As for testing the impairment of property, plant, and equipment, see p below.
Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

m. Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

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

The useful life of intangible assets is as follows:

	Years
Customer base and backlog	1 - 10
Licenses and franchises	2 - 4

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

n. Impairment of non-financial assets:

The Company evaluates the need for an impairment of non-financial assets (property, plant, and equipment, intangible assets, goodwill, investments in associates) whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value fewer costs of sale, and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined by the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of comprehensive income.

An impairment loss of an asset, except goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal of the aforementioned loss is limited to the lower of the amount of the previously recognized decrease in value of the asset (minus depreciation or amortization) and the recoverable amount of the asset. With regard to an asset shown at cost, such a loss is recognized in the statement of comprehensive income.

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

Goodwill in respect of acquired businesses

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

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

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

o. Government grants:

Government grants are recognized when there is reasonable assurance that the grants will be received and the Company will comply with the attached conditions.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

p. Taxes on income:

Current or deferred taxes are recognized in the comprehensive income, except to the extent that they relate to items that are recognized in other comprehensive income or equity.

1. Current taxes:
The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred taxes:
Deferred taxes are computed with respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred taxes are measured at the tax rate that is expected to apply when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.
Deferred tax assets are reviewed at each reporting date based on their utilization probability. Deductible carryforward losses and temporary differences for which deferred tax assets had not been recognized are reviewed at each reporting date and a respective deferred tax asset is recognized to the extent that their utilization is probable.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability.

Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

q. Share-based payment transactions:

The Company's management is entitled to remuneration in the form of equity-settled share-based payment transactions.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments at its grant date. The fair value is determined using a standard option pricing model.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

q. Share-based payment transactions (Cont.) :

The cost of equity-settled transactions is recognized in the statement of comprehensive income together with a corresponding increase in equity during the period which the performance and/or service conditions are to be satisfied ending on the date on which the relevant employees become entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

r. Employee benefit liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation, and social security contributions, and are recognized as expenses as the services are rendered. Liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made. The liability for short-term employee benefits presented in the statement of financial position represents the undiscounted value of the liability.

2. Post-employment benefits:

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or defined benefit plans.

a. The Group has defined contribution plans pursuant to section 14 to the Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.
Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed concurrently with the performance of the employee's services.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

r. Employee benefit liabilities (Cont.) :

b. The Group also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include rates of employee turnover and future salary increases based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to market yields at the reporting date on high-quality corporate debentures that are linked to the Consumer Price Index with a term that is consistent with the estimated term of the severance pay obligation.
In respect of its severance pay obligation to certain of its employees, the Group makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

The liability for employee benefits shown in the statement of financial position reflects the present value of the defined benefit obligation less the fair value of the plan assets.

Remeasurements of the net liability are recognized in other comprehensive income in the period in which they occur.

s. Revenue recognition:

Revenue from contracts with customers is recognized in the profit and loss statement when the control over the goods or services is transferred to the customer. The transaction price is the amount of the consideration that is expected to be received based on the contract terms, excluding amounts collected on behalf of third parties (such as taxes).

1. Revenue of contracts according to actual inputs:

Income from framework agreements for the performance of work according to actual inputs is recognized according to the hours actually invested:

2. Revenue of Fixed Price contracts:

Income from these contracts is recognized according to the completion rate method when all the following conditions are met: the income is known or can be estimated reliably, the collection of income is expected, the costs involved in performing the work are known or can be estimated, there is no material uncertainty about the group's ability to complete the work and, the customer and the completion rate can be reliably estimated.
The completion rate is determined based on the actual cost versus the projected total cost.
As long as all the conditions for the recognition of income from works under a long-term project (POC valuation) contract are not met, income is recognized in the amount of costs incurred, which is likely to be returned (Probable) ("presentation of zero margin").
When a loss is expected from the contract, the full loss is recognized immediately regardless of the completion rate as part of the cost of the sale.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

s. Revenue recognition:

3. Revenues from sales, distribution, and support of software products:

The Company recognizes revenue from software licensing transactions at a point in time when the Company provides the customer a right to use the Company's intellectual property as it exists at the point in time at which the license is granted to the customer.

Revenues from sales, distribution, and support of software products:

The Company recognizes revenue from software licensing transactions over time when the Company provides the customer a right to access the Company's intellectual property throughout the license period.
Revenue from sales agreements that do not have a general right of return, which includes several components such as software, service, and support agreements, is split into separate performance obligations and recognized separately for each performance obligation. The allocation of the consideration shall be performed proportionately based on the separate sales price of each component. Recognition of revenue from the various performance obligations is recognized when the conditions for recognition of the income from the components included in that obligation are satisfied, and only up to the amount of the consideration that is not contingent upon completion or performance of the remaining components of the contract.

4. Revenue from maintenance:

Maintenance income is recognized on a pro-rata basis over the period of the maintenance contract due to be made in each accounting year.
Income received and not yet rendered for the service is charged to advance income.

5. Revenue from Training and implementation:

Revenues from training and implementation services are recognized when the service is provided.

Income from training services in respect of public courses whose operating range is up to 3 months will be recognized over the course period.

Income from training services in respect of courses offered and long-term conversion courses or short-term courses up to one year will be recognized over the course of the course.

Revenues from implementation projects ordered by organizations will be recognized according to actual inputs (actually worked hours).

6. Revenue from infrastructure and computer solutions:

Revenues from infrastructure and computer solutions are recognized in profit or loss at a point in time, with the transfer of control over the goods sold to the customer. Usually, the control is transferred when the goods are delivered to the customer.

- The amount of consideration to be paid in one contract depends on the consideration of another contract.
- The goods or services that the Company will provide according to the contracts represent a single performance obligation for the Company.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

s. Revenue recognition (Cont.):

7. Revenues on a gross basis or on a net basis

In determining how to present the income from contracts with customers, the company examines whether it acts as the principal debtor or as an agent in the contract. The company is a primary supplier when it controls the promised goods or service before it is transferred to the customer and bears the risks and returns derived from the transaction. In these cases, the company recognizes revenue in the gross amount of the consideration. In cases where the company acts as an agent or intermediary, without bearing the risks and returns derived from the transaction, the company recognizes income in the net amount, after deducting the amounts owed to the main supplier

8. Variable consideration:

The Company determines the transaction price separately for each contract with a customer. When exercising this judgment, the Company evaluates the effect of each variable amount in the contract, taking into consideration discounts, penalties, variations, claims, and non-cash considerations. In determining the effect of the variable consideration, the Company normally uses the "most likely amount" method described in the Standard.

Pursuant to this method, the amount of the consideration is determined as the single most likely amount in the range of possible consideration amounts in the contract. According to the Standard, variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

9. Allocating the transaction price:

For contracts that consist of more than one performance obligation, at contract inception, the Company allocates the contract transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis. The stand-alone selling price is the price at which the Company would sell the promised goods or services separately to a customer. When the stand-alone selling price is not directly observable by reference to similar transactions with similar customers, the Company applies suitable methods for estimating the stand-alone selling price including: the adjusted market assessment approach, the expected cost plus a margin approach, and the residual approach. The Company may also use a combination of these approaches to allocate the transaction price in the contract.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

t. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

Legal claims:

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation.

u. Treasury shares:

The company shares held by the Company are recognized at cost and deducted from equity. Any gain or loss arising from the purchase, sale, issue, or cancellation of treasury shares is recognized directly in equity.

v. Disclosure of new IFRS standards in the period before their implementation

In September 2022, the IASB published an amendment to International Accounting Standard 16, Leases (hereinafter: "the amendment") which aims to provide accounting treatment in the financial statements of the seller-lessee in sale and leaseback transactions when the lease payments are variable lease payments that do not depend on the index or rate. As part of the amendment, the seller-lessee is required to adopt one of two approaches to measuring the liability for the lease at the time of first recognition of such transactions.
The chosen approach constitutes an accounting policy that must be applied consistently.
The amendment will be implemented for annual periods beginning on or after January 1, 2024, earlier implementation is possible.
The amendment will be applied retroactively.
In the company's estimation, the above amendment is not expected to have a material impact on the company's financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

	As of 31.12.23	As of 31.12.22	As of 31.12.21
Consumer Price Index-CPI (Basis 2020)			
In Israel (Prevailing Index)	111.2	108.0	102.6
In Israel (Known Index)	111.3	107.7	102.3
Exchange rate against NIS			
Dollar	3.63	3.52	3.11
Euro	4.01	3.75	3.52

	Year ended 31.12.23 %	Year ended 31.12.22 %	Year ended 31.12.21 %
Consumer Price Index-CPI (Basis 2020)			
In Israel (Prevailing Index)	2.96%	5.26%	2.80%
In Israel (Known Index)	3.34%	5.28%	2.40%
Exchange rate against NIS			
Dollar	3.07%	13.15%	(3.27%)
Euro	6.89%	6.62%	(10.76%)

NOTE 3:- BUSINESS COMBINATIONS

a. On April 24, 2022, the transaction was completed in which the company sold holdings representing 45.2% of the issued share capital of the subsidiary company Infinity Labs R. & D. Ltd. ("Infinity"), after the completion of the transaction, the company will be left with a holding of 4.9% of Infinity's share capital, for a total of NIS 154.5 million. As a result of the transaction, the company recognized in its financial statements a capital gain (before tax), in the amount of about NIS 150 million gross (including revaluation of the maintenance balance of 4.9%), as well as recognition of tax expenses in the amount of about NIS 28.5 million. In light of the above, starting from the second quarter of 2022, the company stopped consolidating the results of the Infinity subsidiary in its financial statements, the remaining holding (4.9%) will be measured from then on at fair value. Changes in fair value will be credited to profit and loss.

b. On June 19, 2022, the company, through its subsidiary Matrix IT Integration and Infrastructure Ltd., purchased 100% of the share capital of the companies RDT Equipment and Systems (1993) Ltd., Asio Vision Ltd. and R.S.A. Test Systems Industry Ltd. (hereafter collectively "RDT"), for a total of approximately NIS 44 million. As part of the purchase agreement, the sellers will be entitled to additional consideration that depends on the future financial results of RDT. RDT markets solutions and systems for a wide range of technologies, including control and automation systems, test and measurement equipment, advanced technological

NOTE 3:- BUSINESS COMBINATIONS (Cont.)

solutions for testing data communication, EMC, and (Radio frequency) RF, and serves, among other things, as a representative in Israel of dozens of international companies.
According to the attribution of PPA analysis, the excess of the purchase cost in the amount of approximately NIS 40.6 million will be attributed to intangible assets in the amount of approximately NIS 14.4 million and the balance will be attributed to goodwill.

c. 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. after the completion of the valuation. According to the attribution of PPA analysis, 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:- CASH AND CASH EQUIVALENTS - NIS In Thousands

	December 31 2023	December 31 2022
In NIS:		
Cash for immediate withdrawal	126,594	250,194
Short-term deposits	228,871	303,218
	355,465	553,412
In foreign currency:		
Cash for immediate withdrawal	237,310	226,813
Short-term deposits	47,433	59,088
	284,743	285,901
	640,208	**839,313**

NOTE 5:- TRADE RECEIVABLES AND UNBILLED RECEIVABLE, NET - NIS In Thousands

a. Trade receivables, net

	December 31 2023	December 31 2022
Open debts:		
In NIS	1,177,829	950,255
In foreign currency	155,057	168,476
Related parties	5,052	6,821
Checks receivable	51,970	52,262
Unbilled receivables	304,415	317,691
Less - allowance for doubtful accounts	(17,354)	(13,744)
Trade receivables, net	1,676,969	1,481,761

b. The movement in the allowance for doubtful accounts is as follows:

	NIS in thousands
Balance at January 1, 2022	12,167
Entrance to consolidation	172
Addition during the year	5,676
Derecognition of bad debts	(1,924)
Reversal of collected doubtful accounts	(2,347)
Exchange Differences on translation of foreign operations	-
Balance at December 31, 2022	13,744
Entrance to consolidation	11
Addition during the year	6,343
Derecognition of bad debts	(536)
Reversal of collected doubtful accounts	(2,208)
Exchange Differences on translation of foreign operations	-
Balance at December 31, 2023	17,354

c. Information regarding exposure to credit risk, with reference to trade receivables, net:

		Past due trade receivables with aging of					
	Current	Up to 30 days	30 - 60 days	60 - 90 days	90 - 120 days	Over 120 days	Total
December 31, 2023	1,232,452	265,301	103,221	35,883	28,422	11,690	1,676,969
December 31, 2022	1,030,800	204,609	132,822	56,411	27,612	29,507	1,481,761

NOTE 6:- OTHER ACCOUNTS RECEIVABLE - NIS In Thousands

	December 31 2023	December 31 2022
Employees	1,085	1,500
Government authorities	2,176	3,676
Prepaid expenses	93,209	97,332
Advances to suppliers	3,710	7,303
Other accounts receivable	1,500	2,939
	101,680	112,750

NOTE 7:- INVENTORIES - NIS In Thousands

	December 31 2023	December 31 2022
Purchased products:		
Inventories of computers and peripheral equipment	146,089	118,326

NOTE 8:- PROPERTY, PLANT AND EQUIPMENT – NIS In Thousands

Composition and movement:

2023:

	Assets owned and used by the Company			Assets under operating lease	
	Computers, furniture and equipment	Motor vehicles	Leasehold improvements	Machinery and equipment	Total
Cost:					
Balance at January 1, 2023	152,749	19,571	87,798	63,171	323,289
Entrance to consolidation	2,095	-	1,418	-	3,513
Purchases	17,555	868	10,616	9,837	38,876
Disposals	(4,750)	(6,502)	(11,442)	(12,519)	(35,213)
Exchange rate differences from translation of foreign operations	405	-	-	-	405
Balance at December 31, 2023	168,054	13,937	88,390	60,489	330,870
Accumulated depreciation:					
Balance at January 1, 2023	108,580	11,744	58,499	46,301	225,124
Entrance to consolidation	1,808	-	1,418	-	3,226
Depreciation	17,668	2,182	10,665	8,481	38,996
Disposals	(4,710)	(4,655)	(10,518)	(12,254)	(32,137)
Exchange rate differences from translation of foreign operations	303	-	-	-	303
Balance at December 31,2023	123,649	9,271	60,064	42,528	235,512
Depreciated cost at December 31, 2023	44,405	4,666	28,326	17,961	95,358

NOTE 8:- PROPERTY, PLANT AND EQUIPMENT (CONT.) - NIS In Thousands

2022:

	Assets owned and used by the Company			Assets under operating lease	
	Computers, furniture and equipment	Motor vehicles	Leasehold improvements	Machinery and equipment	Total
Cost:					
Balance at January 1, 2022	1 27,609	19,759	82,278	66,805	296,451
Entrance to consolidation	9,157	609	995	-	10,761
Purchases	20,734	753	9,231	8,039	38,757
Disposals	(3,648)	(1,550)	-	(11,673)	(16,871)
Loss of Control	(2,408)	-	(4,706)	-	(7,114)
Exchange rate differences from translation of foreign operations	1,305	-	-	-	1,305
Balance at December 31, 2022	152,749	19,571	87,798	63,171	323,289
Accumulated depreciation:					
Balance at January 1, 2022	87,691	9,481	54,014	49,499	200,685
Entrance to consolidation	7,026	438	982	-	8,446
Depreciation	17,402	2,903	6,920	8,106	35,331
Disposals	(3,442)	(1,078)	-	(11,304)	(15,824)
Loss of Control	(1,083)	-	(3,417)	-	(4,500)
Exchange rate differences from translation of foreign operations	986	-	-	-	986
Balance at December 31,2022	108,580	11,744	58,499	46,301	225,124
Depreciated cost at December 31, 2022	44,169	7,827	29,299	16,870	98,165

NOTE 9:- GOODWILL AND INTANGIBLE ASSETS - NIS In Thousands

a. Composition:

2023:

	Customer base and backlog	Licenses and franchises	R&D intangible assets	Goodwill	Total
Cost:					
Balance as of January 1, 2023	249,466	4,976	-	1,001,539	1,255,981
Entrance to consolidation	21,158	-		20,869	42,027
Capitalization of R&D costs	-	-	2,250	-	2,250
Foreign currency translation adjustments	-	-	-	6,205	6,205
Adjustments	2,461	-		(6,761)	(4,300)
Balance as of December 31, 2023	273,085	4,976	2,250	1,021,852	1,302,163
Accumulated amortization:					
Balance as of January 1, 2022	150,473	4,713	-	103,023	258,209
Amortization	2 6,533	187	-	-	2 6,720
Balance as of December 31, 2023	177,006	4,900	-	103,023	2 84,929
Net Balance as of December 31, 2023	96,079	76	2,250	918,829	1,017,234

NOTE 9:- GOODWILL AND INTANGIBLE ASSETS - NIS In Thousands

a. Composition (Cont.):

2022:

	Customer base and backlog	Licenses and franchises	Goodwill	Total
Cost:				
Balance as of January 1, 2022	237,249	4,976	944,940	1,187,165
Entrance to consolidation	12,007	-	36,322	48,329
Loss of Control	-	-	(1,470)	(1,470)
Foreign currency translation adjustments	-	-	23,240	23,240
Adjustments	210	-	(1,493)	(1,283)
Balance as of December 31, 2022	249,466	4,976	1,001,539	1,255,981
Accumulated amortization:				
Balance as of January 1, 2022	129,856	4,526	103,023	237,405
Amortization	20,617	187	-	20,804
Balance as of December 31, 2022	150,473	4,713	103,023	258,209
Net Balance as of December 31, 2022	98,993	263	898,516	997,772

In 2022, the Group derecognized the balance of intangible assets (brand names) which were fully depreciated and are no longer used by the group, in the amount of approximately 4,450 thousand NIS.

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b. Amortization of intangible assets:

1. The amortization method reflects the future economic benefits that will derive from the asset.

2. The amortization expenses of intangible assets with a definite useful life were allocated mainly in selling and marketing expenses in the statement of comprehensive income.

NOTE 9:- GOODWILL AND INTANGIBLE ASSETS (CONT.)

c. **Impairment of goodwill:**

In order to test the impairment of goodwill, the goodwill was allocated to operating segments that represent five cash-generating units as follows:

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

As of December 31, 2023, the carrying amount of the goodwill allocated to each cash-generating unit (each representing a segment) is as follows (NIS In Thousands):

	IT Software solutions and services in Israel	Training and implementation	Software product marketing and support	Cloud infrastructure and Computer solutions	IT Software solutions and services in USA	Total
Goodwill balance as of January 1, 2023	411,957	82,689	28,584	103,067	272,219	898,516
Initially consolidated company	-	-	20,869	-	-	20,869
Adjustments	-	-	-	(6,761)	-	(6,761)
Foreign currency translation adjustments	-	-	-	-	6,205	6205
Goodwill balance as of December 31, 2023	411,957	82,689	49,453	96,306	278,424	918,829

NOTE 9:- GOODWILL AND INTANGIBLE ASSETS (CONT.)

d. **Data regarding units to which substantial goodwill was assigned in relation to the balance of goodwill in the books**

The recoverable amount of the cash-generating units listed below is determined based on the value in use, calculated according to the estimate of the expected future cash flows from the asset, which is determined by an external valuation, in accordance with the forecast approved by the Company's management.

In each of the cash-generating units, the recoverable value is higher than the book value of the net assets, and therefore no impairment recognition is required.

Below is the refundable amount and the main key assumptions used to determine it as of 31.12.2023 (in millions of NIS):

	IT Software solutions and services in Israel	Training and implementation	Software product marketing and support	Cloud infrastructure and Computer solutions	IT Software solutions and services in USA
Refundable amount	2,295	140	358	915	971
Discount rate	10.4%	13.6%	13.6%	12%	10.7%
Growth rate in the permanent year (2024-2028)	(3%)	3%	4%	3%	3%

* Despite the financial scope, the Company does not attach to the financial statements the valuation for testing the decline in value of the Information technology solutions and services sector, consulting and management in Israel, since with reference to the assumptions used to determine the value in use of the described unit, the management believes that under any reasonably possible change in the key assumptions, that were met at the basis of the assessment, any material impairment would be recognized.

NOTE 10:- CREDIT FROM BANKS AND OTHERS (In Thousand NIS)

A. Short term credit

	Linkage basis	Interest Rate Fixed or Variable	Interest Rate	December 31, 2023	December 31, 2022
Bank overdrafts and ON CALL	Unlinked	Variable	6.15-6.32	24,019	34,564
Commercial securities not listed	Unlinked	Variable	BOI rate+0.5	200,000	200,000
Current maturities of long-term loans from banks	Unlinked	Fixed	1.4-3.98	179,675	236,890
				403,694	471,454

B. Long term credit from banks and others

1. Breakdown (In Thousand NIS)

Linkage basis	Interest Rate Fixed or Variable	Interest Rate %	December 31, 2023 Total	December 31, 2023 Current maturities	December 31, 2023 Total less current maturities	December 31, 2022 Total less current maturities
Unlinked	Fixed	1.4-3.98	287,705	179,675	108,030	274,525

2. Schedule of payments after the report date (In Thousand NIS)

	December 31 2023	December 31 2022
First year (Current maturities)	179,675	236,890
Second year	88,349	179,003
Third year	17,167	78,348
Fourth year	2,514	17,174
	287,705	511,415

C. Commercial securities (NAAM)

As of the financial reports date, the Company has a Serie of Non- commercial securities(NAAM) in the amount of 200 million NIS. The NAAM is for an accumulated optional period of 5 years, that will finish in November 2024. The NAAM includes a liability clause of redemption, as per the investors` call notice, of at least 7 business days in advance. The NAAM carries year interest according to Bank of Israel rate +0.5%.

NOTE 10:- CREDIT FROM BANKS AND OTHERS (CONT.) - In Thousand NIS

D. Financial covenants regarding engagements with bank institutions and other creditors

As part of the engagements with the banks, in order to obtain credit, the Company pledged that, it will meet the following financial covenants detailed below, as assessed in its financial statements, as follows:

- The consolidated net financial debt of the group to financial institutions, including liabilities from debentures that the Company issued (hereby together-the debt), to total balance sheet ratio according to the company's consolidated financial statements shall not exceed 40%.
- The ratio between the group debt to financial institutions less cash equivalents, to yearly EBITDA shall not exceed 3.5.
- The Company's equity, according to the company's consolidated financial statements, will not be less than 275 million NIS.
- The Company's cash balances and short-term investments as per the Balance sheet, will not be less than 50 million NIS. In order to issue the NAAM, the Company had undertaken the commitment of holding liquid balances and line of credit available, in order to refund the NAAM, in an amount of not less than 300 million, that within this amount approximately 200 million NIS in cash.
- The Company had undertaken the commitment of holding the ownership and control, of at least 50.1%, of Matrix IT Systems Ltd. anytime.
- The Company had undertaken the commitment of not having encumbrances on its assets or part of them, in whichever form and time, towards a third party, without receiving the approval of the bank (excluding first grade encumbrance of an asset, which its funding would be by the same third party, that on his name, the fixed encumbrance will be registered).
- The Company had undertaken not to sell, and /or transfer, in whatever way, its assets to another party, without receiving the consent of the bank, in writing and beforehand, otherwise than in normal course of business.

  As of the date of the report, the Company meets the financial conditions established in the covenants.

NOTE 11:- TRADE PAYABLES (In Thousand NIS)

	December 31, 2023	December 31, 2022
Open accounts:		
In NIS	296,740	150,731
In foreign currency	180,593	162,288
Checks payable	32,479	59,074
Accrued expenses	274,787	248,511
Related parties	-	5
	784,599	**620,609**

NOTE 12:- OTHER ACCOUNTS PAYABLE (In thousand NIS)

	December 31, 2023	December 31, 2022
Government authorities	66,971	49,226
Advances from customers	1,436	3,897
Non-Controlling Interest Shareholders	-	-
Other accounts payable	12,558	13,183
	80,965	**66,306**

NOTE 13:- LEASES

Disclosures for lease transactions in which the company is a lessee:
The Company has entered into leases of buildings and vehicles which are used for the Company's operations.
Leases of buildings have lease terms of between 3 and 5 years whereas leases of machinery and equipment and vehicles have lease terms of 3 years.
Some of the leases entered into by the Company include extension and/or termination options and variable lease payments.
As for details of commitment to material lease engagements, see note 16c below.

a. Information on leases (In Thousand NIS):

	Year ended December 31, 2023	Year ended December 31, 2022
Interest expense on lease liabilities	12,254	6,566
Total negative cash flow for leases	137,896	107,135

b. Disclosures in respect of right-of-use assets (In Thousand NIS):

	Vehicles	Land and buildings	Total
Cost:			
Balance as of January 1, 2023	139,050	260,455	399,505
Additions during the year:			
New leases	73,839	99,833	173,672
Foreign currency translation adjustments and CPI	1,254	2,547	3,801
Disposals during the year:			
Termination of leases	(39,832)	(20,832)	(60,664)
Balance as of December 31, 2023	174,311	342,003	516,314
Accumulated amortization:			
Balance as of January 1, 2023	60,671	158,490	219,161
Additions during the year:			
Depreciation and amortization	55,729	82,174	137,903
Disposals during the year:			
Termination of leases	(36,910)	(17,773)	(54,683)
Balance as of December 31, 2023	79,490	222,891	302,381
Net Balance as of December 31, 2023	94,821	119,112	213,933

NOTE 13:- LEASES (CONT.)

a. Maturity analysis of undiscounted future lease payments receivable for operating leases (In thousand NIS):

	Year ended December 31, 2023	Year ended December 31, 2022
First-year	109,448	105,853
Second year	78,701	48,626
Third year and thereafter	27,607	27,129
Total undiscounted lease payments	215,756	181,608
Current maturities	109,448	105,853
Non-current costs	106,308	75,755

NOTE 14:- EMPLOYEE BENEFIT LIABILITIES

Employee benefits consist of post-employment benefits, other long-term benefits, and termination benefits.

a. Post-employment benefits

According to the labor laws and Severance Pay Law in Israel, the Group is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to section 14 of the Severance Pay Law, as specified below. The Group's liability is accounted for as a post-employment benefit. The computation of the Group's employee benefit liability is made according to the current employment contract based on the employee's salary and employment term which establish the entitlement to receive the compensation.

The post-employment employee benefits are normally financed by contributions classified as defined benefit plan or defined contribution plan, as detailed below.

1. Defined contribution plans:
Section 14 to the Severance Pay Law, 1963 applies to part of the compensation payments, pursuant to which the fixed contributions paid by the Group into pension funds and/or policies of insurance companies release the Group from any additional liability to employees for whom said contributions were made. These contributions and contributions for compensation represent defined contribution plans.

2. Defined benefit plans:
The Group accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in central severance pay funds and qualifying insurance policies.

3. Long-term benefit plan:
According to the Company's agreements with a senior officer, he is entitled to an adaptation bonus in the amount of 12 salaries. This liability has been recognized as a defined benefit. Starting on October 1, 2020, the adaptation bonus applied.

NOTE 14:- EMPLOYEE BENEFIT LIABILITIES (CONT.)

b. Composition of defined benefit plans (In Thousand NIS)

	December 31, 2023	December 31, 2022
Present value of financed obligations	236,510	252,746
Fair value of plan assets	(227,405)	(244,476)
Present value of non-financed obligations, net	**9,105**	**8,270**

c. The movement in the fair value of the plan assets (In Thousand NIS):

	2023	2022
Balance as of January 1	244,476	285,480
Expected return on plan assets	8,371	6,816
Actuarial gain from defined benefit plans	2,245	(8,980)
Contributions by employer	13,457	15,710
Benefits paid	(41,144)	(54,550)
Business combinations and others	-	-
Balance as of December 31	**227,405**	**244,476**

d. Changes in the present value of defined benefit obligation (In Thousand NIS):

	2023	2022
Balance as of January 1,	252,746	304,502
Current service cost	16,175	18,062
Interest expense	13,117	7,545
Net actuarial gain (losses)	(2,015)	(20,568)
Benefits paid	(44,890)	(56,795)
Business combinations and others	1,377	-
Balance as of December 31,	**236,510**	**252,746**

e. Expenses carried to the statement of comprehensive income (In Thousand NIS):

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Current service cost	16,175	18,062	22,480
Interest cost	13,117	7,545	6,529
Expected return on plan assets	(8,371)	(6,816)	(4,946)
Actuarial gains	(4,260)	(11,588)	(11,710)
Total expense recognized in comprehensive income	**16,661**	**7,203**	**12,353**

NOTE 14:- EMPLOYEE BENEFIT LIABILITIES (CONT.)

f. The expenses are included in the statement of comprehensive income in the following items (In Thousand NIS):

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Cost of sales	17,055	16,573	21,177
Selling and marketing expenses	388	376	480
General and administrative expenses	1,938	1,878	2,406

g. The principal actuarial assumptions

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
	%	%	%
Discount rate of the plan liabilities	5.35	2.69	2.18
Expected real salary increase rate	0-4	0-4	0-4

h. Amounts, timing, and uncertainties involving future cash flows (In Thousand NIS)

	Defined benefit obligation
As of December 31, 2023:	
Sensitivity test for changes in the expected rate of salary increase:	
The change as a result of:	
Salary increase of 1%	(1,974)
Salary decrease of 1%	1,672
Sensitivity test for changes in the discount rate of the plan assets and liability:	
The change as a result of:	
Increase of 1% in discount rate	2,015
Decrease of 1% in discount rate	(2,336)

i. Expenses in the period in respect of defined contribution plans (In Thousand NIS)

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Total expense recognized in respect of defined contribution plans	103,162	100,602	91,400

NOTE 15- TAXES ON INCOME

a. Tax rates applicable to the Group:

1. The Israeli corporate tax rate was 23% in 2021-2023
   Companies are levied by Real Capital Tax, at the rate of corporate income tax, that is effective, in the period of disposal.

2. **The main tax rates applicable to the subsidiaries whose place of incorporation is outside Israel is:**
   Companies incorporated in the U.S. - weighted tax at the rate of about 27% (Federal tax, State tax, and Municipal tax of the city where the company operates).

b. Structure changes in the Group:

During the fourth quarter of 2022, the company made a structural change in connection with its holdings in some of the subsidiaries in the US. Before the date of the structural change, the company held, indirectly through subsidiaries, the full rights in Matrix IFS and Network Infrastructure Technologies Inc. (through Matrix IFS) and in 60% of the rights in Matrix Global Services USA Inc. After the structural change, which was carried out without exchange of cash, all the rights in the subsidiaries are held as detailed above under the entity Matrix US Holding Llc. (established for this purpose), with the company holding 95% of the rights. The aforementioned structural change was handled as a transaction with Non-Control Interest (against Equity Fund) without impact on the company's profit and loss.

c. Final tax assessments:

The Company and its consolidated subsidiaries, have received final tax assessments (or assessments that are deemed final) through and including the 2018 fiscal year.

d. Carryforward losses for tax purposes and other temporary differences:

Carryforward net operating tax losses and capital losses of the Group amounts to approximately NIS 44,655 thousand as of December 31, 2023. The majority of the Group's carryforward losses result from Israeli companies, therefore, the utilization period of these losses is unlimited.

Deferred tax assets relating to carry forward of operating losses of approximately NIS 4,275 thousand were not recognized because their utilization in the foreseeable future is not probable.

NOTE 15:- TAXES ON INCOME (CONT.)

e. **Deferred taxes:**

1. Composition (In Thousand NIS):

	Employee benefits and Provision for vacation	Fixed assets and intangible assets	Carryforward tax losses	Allowance for doubtful accounts	Employee options	Other temporary differences	Leases	Total
Balance as of January 1, 2021	24,070	(29,336)	14,295	2,268	1,554	604	949	14,404
Initially consolidated company	(258)	(2,546)	-	-	-	-	-	(2,804)
Capital Fund	(2,693)	-	-	-	236	23	(166)	(2,600)
Change recorded in the statement of comprehensive income	623	5,061	796	236	(691)	551	(294)	6,282
Adjustments	-	(316)	-	-	-	-	-	(316)
Balance as of January 1, 2022	**21,742**	**(27,137)**	**15,091**	**2,504**	**1,099**	**1,178**	**489**	**14,966**
Initially consolidated company	396	(2,761)	1,987	23	-	(44)	-	(399)
Loss of Control	(223)	-	-	-	-	-	-	(223)
Capital Fund	(2,665)	-	-	-	(420)	-	24	(3,061)
Adjustments	-	(48)	-	-	-	-	-	(48)
Change recorded in the statement of comprehensive income	1,517	4,713	3,840	442	(451)	(2,691)	(219)	7,151
Balance as of December 31, 2022	**20,767**	**(25,233)**	**20,918**	**2,969**	**228**	**(1,557)**	**294**	**18,386**
Initially consolidated company	170	(4,866)	-	-	-	180	-	(4,516)
Adjustments	-	(548)	-	-	-	-	-	(548)
Capital Fund	(980)	-	-	-	(228)	-	380	(828)
Change recorded in the statement of comprehensive income	2,995	6,246	(11,631)	1,031	2,092	(229)	(207)	297
Balance as of December 31, 2023	**22,952**	**(24,401)**	**9,287**	**4,000**	**2,092**	**(1,606)**	**467**	**12,791**

NOTE 15:- TAXES ON INCOME (CONT.)

2. The deferred taxes are computed at the tax rate of 23% based on the tax rates that are expected to apply to the Group upon reversal of the temporary differences in their respect 2021-2023 23% and 27% in USA assets.

f. Taxes on income included in the statement of comprehensive income (In Thousand NIS):

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Current taxes	78,692	108,952	71,486
Deferred taxes	(297)	(7,151)	(6,282)
Taxes in respect of previous years	(64)	(1,516)	242
	78,331	100,285	65,446

g. Taxes on income relating to other comprehensive income items (In Thousand NIS):

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Tax benefit on actuarial gains	(980)	(2,665)	(2,693)

h. Theoretical tax:

The reconciliation between the tax expense, assuming that all the income, expenses, gains and losses in the comprehensive income were taxed at the statutory tax rate and the taxes on income recorded in comprehensive income is as follows (In thousand NIS):

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Income before taxes on income	325,186	454,766	284,194
Statutory tax rate	23%	23%	23%
Tax computed at the statutory tax rate	74,793	104,596	65,365
Increase (decrease) in taxes on income resulting from the following:			
Unrecognized temporary differences	(345)	(181)	(382)
Unrecognized expenses and depreciation for tax purposes, net	3,773	4,365	3,263
First-time creation of deferred taxes	(1,493)	(8,299)	(4,617)
Deferred taxes recorded at difference tax rates	1,667	1,320	1,575
Taxes in respect of previous years	(64)	(1,516)	242
	78,331	**100,285**	**65,446**

NOTE 16:- COLLATERAL, GUARANTEES, CONTIGENT LIABILITIES, AND COMMITMENTS

a. Collaterals:

As of December 31, 2023, the Group has not recorded any collateral.

b. Contingent liabilities

1. Proceedings and claims
Several legal claims have been filed against the Company and the subsidiaries in the ordinary course of business in the reporting period and in previous periods in an aggregate of approximately NIS 10.2 million. The Group's management estimates, based on its legal counsel opinion regarding the chances of these claims, the provisions included in the financial statements for covering any potential exposure arising from these claims are adequate.

2. On December 3, 2023, the Company received a request for the disclosure of documents according to section 198a of the Companies Law, which was submitted to the economic department of the Tel Aviv District Court by the claimant to be a shareholder of the Company against the company, and this in order to examine the possibility of filing a derivative claim on behalf of the Company against the company's CEO and the company's directors, in connection with the compensation approved for the company's CEO following the objection of the general meeting.
The Company is studying the request and will respond to the court at the time and in the manner required for this.

c. Engagements

1. In January 2022, the company entered into a lease agreement in connection with a new office building in Kfar-Saba, for a period of 10 years, for an amount of approximately 200 million NIS(the expected rental cost is approximately NIS 20 million per year), with two extension options of 5 years each. The building includes 15 office floors with an area of approximately 16,000 square meters and 3 floors of an underground parking lot with an area of approximately 14,000 square meters and is planned to serve as the company's headquarters and its other branches that will be united under one complex. The move is expected to take place in the second quarter of 2024.

2. In February 2024, The Company has renewed a real estate lease agreement with Ofer Brothers Properties Ltd. according to which the Company leases office spaces in Herzliya, Israel. The lease term is expected to end in June 2024.

3. In September 2015, John Bryce ("JB" – the Company's subsidiary) has entered into a real-estate lease agreement with an unrelated third party for a period of 8 years and realized an option for an additional 3 years. The expected lease fees are approximately NIS 7 million per annum. With regard to the agreement, the Company provided a guarantee for the fulfillment of JB's liabilities.

NOTE 16:- COLLATERAL, GUARANTEES, CONTIGENT LIABILITIES AND COMMITMENTS (CONT.)

4. Babcom, a company subsidiary, has lease agreements to rent offices in several sites around the country, with an area of approximately 14,000 square meters for an amount of NIS 11 million per annum.

5. The Company and its subsidiaries insure themselves in bodily injury and property damage insurance policies, including third party, professional liability, cash theft insurance, employer's liability, and designated cyber insurance policies CEIME including third party cyber insurance.
   The Company's directors and officers are insured under the D&O policy for insurance of directors and officers including D&O side A DIC policy (another layer of protection for officers).

d. Engagement with the Company's CEO

During 2022, Mr. Gutman provided management services to the Company in accordance with the Management Services Agreement, approved on October 29, 2015, with Revava Management Ltd. through which Mr. Moti Gutman provides the Company CEO services, effective from January 1, 2018, until December 31, 2022. On December 28, 2022, the Company entered into a new agreement for the provision of management services with Mr. Gutman as aforesaid, for a period of five years, from January 1, 2023, to December 31, 2027 (the "New Agreement"). According to the new agreement, on February 1, 2023, the Company granted to Mr. Guttman, for no consideration, 375,000 restricted shares (the "RS's") exercisable into 375,000 ordinary shares of the Company with no exercise price. The RS's shall vest into shares in four equal portions commencing on December 31, 2024, in such a way that 40% will mature on December 31, 2024, and the rest in equal parts every subsequent year until December 31, 2027, but in any case not before the date of publication of the company's yearly financial statements for the previous year.

e. Guarantees

1. The Company and the subsidiaries provided each other cross guarantees.

2. The Company and the subsidiaries provided performance guarantees in favor of customers totaling approximately NIS 135.6 million.

3. The Company and the subsidiaries provided guarantees for the payment of rent totaling approximately NIS 21.1 million.

NOTE 17:- EQUITY

a. Composition of share capital (In Thousand NIS):

	December 31, 2023 Authorized	December 31, 2023 Issued and outstanding	December 31, 2022 Authorized	December 31, 2022 Issued and outstanding
Ordinary shares of NIS 1 par value each	100,000	64,176	100,000	63,548

b. Movement in share capital (Ordinary shares of NIS 1 par value each)

	Number of shares 2023	Number of shares 2022	Number of shares 2021
Balance as of January 1	63,548,141	63,248,369	62,790,767
Exercise of options and RSU's into shares	627,789	299,772	457,602
Balance as of December 31	64,175,930	63,548,141	63,248,369

c. Rights attached to shares

Ordinary shares of NIS 1 par value each confer their holders voting rights at the general meeting, rights to dividends, and rights to participate in the distribution of the Company's assets upon liquidation. The shares are quoted on the Tel-Aviv Stock Exchange.

d. Treasury shares - Company shares held by the Company and subsidiaries

The holdings of the Company and its subsidiaries in the Company's shares are as follows:

	December 31, 2023	December 31, 2022
	%	%
Number of shares held	653,860	653,860
Percentage of issued share capital	1.018	1.028

NOTE 17:- EQUITY (CONT.)

e. Dividends paid to the shareholders

The following table presents the dividend distributions effected in the reporting periods:

Date of distribution decision by the Board	Actual date of distribution	Amount distributed per share (in Agorot)	Overall amount distributed (NIS in thousands)
March 22, 2022	April 12, 2022	65	40,874
June 1 2022	June 23, 2022	71	44,655
August 17, 2022	August 28, 2022	261	164,154
November 17, 2022	December 4, 2022	55	34,592
March 12, 2023	April 16, 2023	59	37,478
May 10, 2023	June 5, 2023	71	45,101
August 9, 2023	September 3, 2023	69	43,830

The Company's dividend distribution policy is to distribute annual dividend at a rate of up to 75% of its annual net income. The dividend will be distributed on a quarterly basis. Subject to compliance with the distribution criteria, according to the law on the relevant date.

f. Capital management in the Group

1. The Group's principal capital management objective is to secure the ability to create a fixed return to the shareholders through the capital increase or distributions and through payment of an annual dividend. In order to meet this objective, the Group strives to maintain a leverage ratio that reasonably balances the risks and rewards and to maintain a financial base that will allow the Group to respond to its investment and working capital needs. In making decisions regarding changes in the Group's capital structure aimed at achieving this objective, whether by revising the dividend distribution policy, issuing capital, or reducing the Group's debt, the Group not only considers its short-term position but also its long-term targets.

2. In the management of the Capital/Liabilities structure, the Group monitors on a current basis, the leverage ratio (the ratio between financial liabilities and the Group's capital). Also, the company works to maintain an effective and adequate leverage ratio that combines the interests of the shareholders and the financial debt holders.
   In addition, the Group performs in such manner to create a proper balance between long/short term financial debt and a fixed/variable interest rate, while maintaining financial balances and bank credit facilities that can be utilized.

NOTE 17:- EQUITY (CONT.)

f. **Capital management in the Group (Cont.)**

3. The Group's policy is to meet the financial covenants undertaken with banks. As of December 31, 2023, and 2022.

Condensed quantitative data on differences managed by the Company in respect of (In Thousand NIS):

	December 31, 2023	December 31, 2022
Cash and cash equivalents	640,208	839,313
Liabilities to banks and others	(956,230)	(1,221,160)
Net debt	(316,022)	(381,847)
Total debts	4,084,180	4,002,776
Ratio of debt to total balance sheet	23.4%	30.5%
Ratio of net debt to total balance sheet	7.7%	9.5%
Total capital	1,107,472	964,875
Capital to total balance sheet ratio	27.1%	24.1%

NOTE 18:- SHARE-BASED PAYMENT

a. **Expenses recognized in the financial statements:**

The following table describe the expense recognized in the financial statements for employee services received (In thousand NIS):

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Equity-settled share-based payment plans	16,106	1,330	3,069

The share-based payment transactions that the Company granted to its employees are described below.

NOTE 18:- SHARE-BASED PAYMENT (CONT.)

b. The Company's existing share-based payment plans:

1) Grant of Restricted stock units (RSU) to the Company's CEO

On January 16, 2018 the Company's approved an agreement with Revava Management Company Ltd. through which Mr. Moti Gutman provides services to the company as a CEO until December 31, 2022, in which among other things, the Company granted Mr. Gutman 256,890 restricted share units (RSU)exercisable into 256,890 ordinary shares of the company without an exercise price. The RSU will vest in five equal portions of 51,378 RSU units, each portion at December 31 of each agreement year, but not before the issuance of the Company's financial statements for the past year, and subject to certain conditions. In 2022, 51,378 restricted share units (RSU) were vested and exercised. As per the Balance sheet date, Mr. Gutman realized all the RSU of this plan.

On December 18, 2022 the Company's approved a new engagement agreement with Mr. Moti Gutman to provide services to the company as a CEO for a period of 5 years starting January 1, 2023 until December 31, 2027, in which among other things, the Company granted Mr. Gutman 375,00 restricted shares (RS) exercisable into 375,000 ordinary shares of the company without an exercise price. The RS will vest in four yearly portions starting from December 31, 2024, in such a way that 40% will vest on December 31, 2024, and the rest in equal portions each year after then till December 31, 2027, but not before the issuance of the Company's financial statements for the past year.

2) Share-based payment plan for senior managers

On January 1, 2019, after receiving the Compensation Committee's approval, the Company's Board of Directors approved the allocation of 1,440,000 options exercisable up to 1,440,000 ordinary shares of NIS 1 par value for free, to 20 officers and senior employees of the Company or of its controlled companies. The exercise of the options at the date of grant is NIS 41.7. The price is subject to adjustment, including when distributing a dividend.

At the actual exercise, shares will only be issued, according to the value of the benefit embodied in the options ("net exercise mechanism"), the company will receive no consideration in cash. The contractual life of the stock options is 5 years from the grant date.

On February 12, 2019, after the approval of the Compensation Committee, and the Company's Board of Directors, the General Meeting approved the issuance of 80,000 options exercisable up to 80,000 ordinary shares, of NIS 1 par value, for no consideration to the President and Deputy Chairman of the Company's Board of Directors. The exercise price of the option was NIS 43.16 at the date of grant and is subject to adjustments, including when distributing a dividend. As of the date of these Financial statements, all the options were realized according to this plan.

NOTE 18:- SHARE-BASED PAYMENT (CONT.)

b. The Company's existing share-based payment plans (Cont.)

On March 12, 2023, after receiving the Compensation Committee's approval, the Company's Board of Directors approved the allocation of 920,000 options exercisable up to 920,000 ordinary shares of NIS 1 par value for free, to 18 officers and senior employees of the Company or of its controlled companies. The exercise of the options at the date of grant is NIS 71.25. The price is subject to adjustment, including when distributing a dividend. Half of the amount of the options will vest on March 12, 2025, a quarter of the option balance will vest on March 12, 2026 and the remaining amount will vest on March 12, 2027. The contractual life of the stock options is 5 years from the grant date.
The fair value of the options is estimated on the day of the grant in accordance with the binomial model based are appraised 22.38 NIS for each option, on the terms which are: the risk-free interest rate is 4.53% -3.34%, the early exercise factor is 130% and the expected volatility is 31%.
On August 12, 2023, after receiving the Compensation Committee's approval, the Company's Board of Directors approved the allocation of 45,000 options exercisable up to 45,000 ordinary shares of NIS 1 par value for free, to a senior employee of the Company. The exercise of the options at the date of grant is NIS 73.73. The price is subject to adjustment, including when distributing a dividend. Half of the amount of the options will vest on August 10, 2025, a quarter of the option balance will vest on August 10, 2026 and the remaining amount will vest on August 10, 2027. The contractual life of the stock options is 5 years from the grant date.
The fair value of the options is estimated on the day of grant in accordance with the binomial model based are appraised 22.38 NIS for each option, on the terms which are: the risk-free interest rate is 4.53% -3.34%, the early exercise factor is 130% and the expected volatility is 31%.

NOTE 18:- SHARE-BASED PAYMENT (CONT.)

c. Movement during the year (In Thousand NIS)

The following table lists the number of share options, the weighted average exercise prices of share options and modification in employee option plans during the current year:

	Number of options 2023	Weighted average exercise price 2023	Number of options 2022	Weighted average exercise price 2022	Number of options 2021	Weighted average exercise price 2021
Share options and RSU outstanding at beginning of year	398,878	36.49	862,756	35.50	1,674,134	34.41
Share options issued during the year	1,340,000	50.70	-	-	-	-
Share options forfeited during the year	(45,000)	69.26	(12,500)	35.48	-	-
Share options and RSU exercised during the year	(398,878)	26.97	(451,378)	31.54	(811,378)	35.49
Share options and RSU outstanding at end of year	1,295,000	49.34	398,878	36.49	862,756	35.50
Share options and RSU exercisable at end of year	-	-	51,378	-	51,378	-

On January 1, 2023, all the existing outstanding Management options as of 31.12.2022 were exercised.

d. Measurement of the fair value of equity-settled share options

The Company uses the Binomial model when measuring the fair value of equity-settled share options. The measurement was made at the grant of equity-settled share options, since the options were granted to employees.

NOTE 19:- DEBENTURES

a. Issuance of debentures (series B)

On September 18, the company issued debentures (series B) in a total amount of NIS 295,249 thousand net proceeds (after deducting commissions and direct costs for the issuance of the debentures) in the amount of approximately NIS 293 million. The bond fund (series B) will be repaid in 14 (fourteen) equal semi-annual payments, to be paid on February 1 and August 1, starting on August 1, 2023 and ending on February 1, 2030. The debentures bear interest at an annual rate of 4.1% which will be paid twice a year, on February 1 and August 1, starting from February 1, 2023 until February 1, 2030. The debentures are not secured by a lien and the principal and interest of the debentures are not linked to any index or currency.
On December 4, 2022, the issuing company issued debentures (series B) by way of series expansion, for a total amount of 180,366 thousand NIS. in net consideration of approximately NIS 178.4 million.
As of the date of the report, the remaining interest to be paid for the debentures is approximately 8,111 thousand NIS.

1) Covenants that are not met will give the holders the right to put the bond up for immediate repayment:

As part of the issuance of the debentures (series B), the company pledged that as long as the debentures have not yet been paid in full, it will meet the financial covenants detailed below:

- The **consolidated net financial debt** to total balance sheet ratio according to the company's consolidated financial statements shall not exceed 45% for a period of two consecutive quarters.
- **Consolidated net financial debt to adjusted EBITDA ratio** according to the company's consolidated financial statements shall not exceed 5 for a period of two consecutive quarters.
- The company's equity, according to the company's consolidated financial statements, will not be less than 275 million NIS for a period of two consecutive quarters.

In this regard, it should be clarified that the highlighted terms indicated above were defined in the deed of trust for the debentures (series B) in accordance with the characteristics of the Company.
As of the date of the report, the Company meets the financial condition.
It should be noted that the deed of trust provides for covenants, with which breaching them will result in compensation in the interest rate, dividend distribution holt, and interest rate adjustment for credit rating downgrading.

2) Main reasons for making the bond available for immediate repayment:

The debentures (series B) include reasons for making the debentures available for immediate repayment, provided that the period set for the correction of the said events has passed (as stipulated in the terms of the debentures). Below are the main events as mentioned:

NOTE 19:- DEBENTURES (CONT.)

a. Issuance of debentures (series B) – Cont.

- The lack of compliance with the financial standards for immediate repayment, as detailed above.
- If control is transferred (as defined in section 268 of the Companies Law) in the company, except if there is no decrease in the rating of the debentures (series B) in relation to the lower of: the rating at the time of issuance or the rating before the transfer of control.
- If the bond rating is lower than BBB minus.
- Changing the main activity of the company in such a way that the main activity of the company (according to the assets test) will not be in the area of activities the company was engaged in at the time of the issuance of the debentures.
- Another traded bond series of the company was put up for immediate repayment without the initiative of the company or a non-traded bond series (one or more) or a loan (one or more) that remained at the time it was put up for immediate repayment, is over NIS 275 million, and the demand for repayment immediately as mentioned was not removed/dissolved, within 30 days.
- Other acceptable grounds for making debentures immediately payable, such as liquidation, collection, termination of rating, termination of marketability, etc.

b. Book value versus fair value (In Thousand NIS)

Balance of Book Value December 31,2023	Fair Value December 31,2023
444,506	445,896

Below are the repayment dates of the debenture for December 31, 2023 (In thousand NIS):

	December 31 2023
First Year- (Current maturities)	84,080
Second year	77,813
Third year	71,935
Fourth year	66,416
Fifth year and beyond	144,262
	444,506

NOTE 20:- FINANCIAL INSTRUMENTS

a. Classification of financial assets and financial liabilities

The financial assets and financial liabilities in the statement of financial position are classified by groups of financial instruments pursuant to IFRS 9 (In thousand NIS):

	December 31, 2023	December 31, 2022
Financial assets:		
Financial assets at Fair value through Profit and loss		
Financial assets which destination was initially recognized	16,758	16,758
Loans and receivables*	1,685,482	1,483,346
Financial liabilities:		
Financial liabilities measured at amortized cost	1,974,349	2,493,095
Financial liabilities Designated as such upon initial recognition	91,907	124,697

* The depreciated cost of the company's financial instruments is a reasonable approximation of their fair value.

b. Financial risks factors

The Group's activities expose it to various financial risks such as market risk (including foreign exchange risk, fair value risk in respect of interest rate and price risk), credit risk, liquidity risk, and cash flow risk in respect of interest rate. The Group's comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Group's financial performance.

The Board has not established specific policies with respect to certain exposures to risks, but in such matters, the Group's finance department, managed by the Company's CFO, identifies and assesses the financial risks, such as credit risk, foreign exchange risk, interest rate risk (including the use of derivative financial instruments, non-derivative financial instruments and investment of exceeding liquid cash flows).

NOTE 20:- FINANCIAL INSTRUMENTS (CONT.)

1. Market risks:

a) Foreign currency risk

Foreign currency risk arises from transactions, recognized assets, and recognized liabilities denominated in foreign currency that is not the functional currency and from net investments in foreign operations.

The Group's policy is to allow the Group entities to pay liabilities denominated in their functional currency (mainly NIS) using the cash flows generated by each entity's activities. When the Group entities have liabilities denominated in foreign currency that is not their functional currency (and have no sufficient cash balances in this currency to settle the liabilities), the Group, if possible, transfers cash balances from one Group entity to the other.

The software products marketing and implementation segment is exposed to currency risk in respect of current purchases from U.S. suppliers. These acquisitions occur on a regular basis. The effect of fluctuations in the exchange rates on trade payables denominated in dollars is offset by the balance of trade receivables denominated in dollars. In addition, the Group assesses and performs hedging transactions in order to protect from fluctuation of foreign exchange currencies. (as of the reporting date it is no material, in relation to the whole Group`s operations).

As of the reporting date, the Group has a net assets balance denominated in dollars, totaling NIS 234,620 thousand (as of December 31, 2021 - NIS 128,437 thousand).

The Group has an investment in a foreign operation, whose net financial assets are exposed to possible fluctuations in the U.S. dollar exchange rate. The currency exposure arising from the foreign operation's net financial assets in the U.S. is mainly managed by the CFO.

b) Interest rate risk

The Group's interest rate risk mainly arises from long-term loans received. Loans that bear variable interest rates (including On Call loans, and Commercial securities) expose the Group to interest rate risk in respect of cash flows. The majority of long-term loans received in the last two years, including Debentures (Serie B) that the company issued during 2022, were at fixed interest, which minimizes the exposure to interest.

Details of the interest type of the Group's interest-bearing financial instruments (In Thousand NIS):

	December 31, 2023	December 31, 2022
Fixed interest instruments:		
Financial liabilities	(947,967)	(1,168,205)
Variable interest instruments:		
Financial liabilities	(224,019)	(234,563)

NOTE 20:- FINANCIAL INSTRUMENTS (CONT.)

2. Credit risk:

Credit risk is the risk that the counterparty will not meet its obligations as a customer or under a financial instrument leading to a loss to the Group. Credit risk mainly arises from the Group's customers and from investments in corporate debentures.

a) Trade receivables:

Before accepting new customers, the Group runs a credit check on the prospective customers using a reliable outside source. This information is used to determine payment terms and credit limits which are approved based on the size of the customer. Cases of exceeding credit limits are approved (according to procedures) depending on each specific case and based on past experience with the specific customer. Customers that consistently fail to meet their credit terms are required to make advance payments for any additional purchases until their credit rating can be re-reestablished.
The examination of provision for impairment is determined at each specific reporting date.

b) Investment in cash and cash equivalents:

The Group holds cash and cash equivalents, short and long-term investments, and other financial instruments in various financial institutions. According to the Group's policy, ongoing credit evaluations are made to determine the credit strength of those financial institutions.

As of December 31, 2023, cash and cash equivalents total approximately NIS 640,208 thousand (as of December 31, 2022 - NIS 839,313 thousand).

3. Liquidity risk:

Liquidity risk arises from managing the Group's working capital as well as from financial expenses and principal payments of the Group's debt instruments. Liquidity risk consists of the risk that the Group will have difficulty in fulfilling obligations relating to financial liabilities.

The Group's policy is to ascertain constant cash adequacy needed for settling its liabilities when due. For this purpose, the Group aims to hold cash balances (or adequate credit lines) that will meet anticipated demands. The Group finances business combinations using long-term loans for average periods of 3-6 years.
The company apply to a rating company every year. As of December 31, 2023, the company has an Aa3 issuer rating with a stable rating.

The Group examines cash flow forecasts on a monthly basis as well as information regarding cash balances and the Group's investments in corporate debentures. As of the reporting date, these forecasts indicate that the Group can expect sufficient liquid sources for covering its entire liabilities under reasonable assumptions.

NOTE 20:- FINANCIAL INSTRUMENTS (CONT.)

3. Liquidity risk (Cont.) :

Table (1) below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (including interest payments):

December 31, 2023 (In Thousand NIS) :

	First year	Second year	Third year	Fourth year	Fifth year	Total
Trade payables	784,599	--	-	-	-	784,599
Other payables	79,529	--	-	-	-	79,529
Employee benefit liabilities	447,510	--	-	-	-	447,510
Loans from banks and other credit suppliers*	403,694	88,349	17,167	2,514	-	511,724
Leases	109,448	78,701	27,607	-	-	215,756
Debenture	84,080	77,813	71,935	66,416	144,262	444,506
	1,908,860	244,863	116,709	68,930	144,262	2,483,624

December 31, 2022 (In thousand NIS):

	First year	Second year	Third year	Fourth year	Fifth year	Total
Trade payables	620,609	--	-	-	-	620,609
Other payables	62,409	--	-	-	-	62,409
Employee benefit liabilities	407,309	--	-	-	-	407,309
Loans from banks and other credit suppliers*	471,454	179,003	78,348	17,174	-	745,979
Leases	105,853	48,626	27,129	-	-	181,608
Debenture	49,833	80,442	74,447	68,823	201,636	475,181
	1,717,467	308,071	179,924	85,997	201,636	2,493,095

The above tables do not include liabilities in respect of business combinations.

* As part of the short-term repayments (first year)," Commercial securities" are included, which can be asked to be repaid by their holders at any time, and which will face final repayment in the month of November 2024.

NOTE 20:- FINANCIAL INSTRUMENTS (CONT.)

c. Fair value

The carrying amount of cash and cash equivalents, short-term investments, trade receivables, other accounts receivable, short-term loans granted, credit from banks and others, trade payables and others and other accounts payable approximates their fair value.

Marketable assets and liabilities	-	Based on quoted prices in an active market as of the reporting date.
Interest-bearing short-term non-marketable assets and liabilities with fixed maturities	-	The carrying amount reflects the fair value as of the reporting date since their average interest rate is not materially different from standard market rate for similar items as of the reporting date.
Assets and liabilities with no maturities	-	Fair value is determined at the amount payable upon demand on the reporting date.
Assets and liabilities at variable interest	-	The fair value of assets and liabilities at variable interest which do not involve a material credit risk is based on their carrying amount.
Long-term loans at fixed interest	-	The fair value of long-term loans bearing fixed interest is based on the calculation of the present value of cash flows using the standard interest rate for similar loans with similar characteristics.
Put options of non-controlling interests	-	The fair value is based on market price. In the absence of market price, the fair value is based on economic models.
Guarantees and liabilities to grant loans	-	The fair value is based on the amount payable as of the reporting date for similar engagements taking into consideration the remaining period of the agreement and the credit strength of the parties to the contract.

d. Classification of financial instruments by fair value hierarchy

The financial instruments presented in the statement of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

Level 1	-	quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	-	inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
Level 3	-	inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

NOTE 20:- FINANCIAL INSTRUMENTS (CONT.)

December 31, 2023 and 2022:

Financial assets measured at fair value (In Thousand NIS):

	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss:			
Investment in Affiliates	-	-	16,758
	-	**-**	**16,758**

December 31, 2023:

Financial liabilities measured at fair value (In Thousand NIS):

	Level 1	Level 2	Level 3
Financial liabilities at fair value through profit or loss:			
Put options of non-controlling interests	-	-	88,136
Liabilities in respect of business combinations	-	-	3,771
	-	**-**	**91,907**

December 31, 2022:

Financial liabilities measured at fair value (In Thousand NIS):

	Level 1	Level 2	Level 3
Financial liabilities at fair value through profit or loss:			
Put options of non-controlling interests	-	-	100,545
Liabilities in respect of business combinations	-	-	24,152
	-	**-**	**124,697**

NOTE 20:- FINANCIAL INSTRUMENTS (CONT.)

e. Sensitivity tests relating to changes in market factors (In Thousand NIS)

	December 31, 2023	December 31, 2022
Sensitivity test to changes in interest rates:		
Profit (loss) from the change:		
Increase of 1% in interest	(2,240)	(2,346)
Decrease of 1% in interest	2,240	2,346

	December 31, 2023	December 31, 2022
Sensitivity test to changes in U.S. dollar exchange rates:		
Profit (loss) from the change:		
Increase of 5% in exchange rate	10,856	11,731
Decrease of 5% in exchange rate	(10,856)	(11,731)

Sensitivity tests and principal work assumptions:

The selected changes in the relevant risk variables were determined based on management's estimate as to reasonable possible changes in these risk variables.

The Group has performed sensitivity tests of principal market risk factors that are liable to affect its reported operating results or financial position. The sensitivity tests present the profit or loss and/or change in equity (before tax) in respect of each financial instrument for the relevant risk variable chosen for that instrument as of each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial condition of each risk with reference to the functional currency and assuming that all the other variables are constant.

The Group is not exposed to interest rate risk in respect of long-term loans with fixed interest.

The sensitivity test for long-term loans with variable interest is performed only on the variable component of interest.

NOTE 20:- FINANCIAL INSTRUMENTS (CONT.)

f. Changes in liabilities arising from financing activities (In Thousand NIS)

2023

	Balance at January 1, 2023	Receipts	Payments	Net cash flows	Effect of changes in exchange rates	Effect of changes in fair value	Distribution of dividends to non-controlling interests	Entrance to Consolidation	Other changes	Balance at December 31, 2023
Short-term loans	234,564	-	-	(35,626)	-	-	-	25,081	-	224,019
Long-term loans (including maturities)	511,415	-	(223,175)	-	-	-	-	-	(535)	287,705
Debenture	475,181	-	(33,959)	-	-	-	-	-	3,284	444,506
Put options of non-controlling interests	100,545	-	(29,352)	-	-	10,175	(15,929)	26,104	(3,407)	88,136
Finance lease obligation	181,610	-	(137,896)	-	-	--	-	-	172,042	215,756
Liabilities in respect for business combination	24,151	--	(15,211)	-	27	(348)	-	-	(4,848)	3,771
Total liabilities arising financing activities	1,527,466	-	(439,593)	(35,626)	27	9,827	(15,929)	51,185	166,536	1,263,893

f. Changes in liabilities arising from financing activities (In Thousand NIS)

2022

	Balance at January 1, 2022	Receipts	Payments	Net cash flows	Effect of changes in exchange rates	Effect of changes in fair value	Distribution of dividends to non-controlling interests	Entrance to Consolidation	Other changes	Balance at December 31, 2022
Short-term loans	254,204	-	-	(24,441)	-	-	-	4,801	-	234,564
Long-term loans (including maturities)	654,552	90,000	(233,159)	-	-	-	-	-	22	511,415
Debenture	-	471,476	-	-	-	-	-	-	3,705	475,181
Put options of non-controlling interests	112,420	-	-	-	-	12,159	(24,578)	-	544	100,545
Finance lease obligation	144,795	-	(107,135)	-	-	--	-	-	143,950	181,610
Liabilities in respect for business combination	10,542	-	(3,132)	-	837	416	--	14,751	737	24,151
Total liabilities arising financing activities	1,176,513	561,476	(343,426)	(24,441)	837	12,575	(24,578)	19,552	148,958	1,527,466

NOTE 21:- ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE INCOME ITEMS

a. Revenues (In Thousand NIS)

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Information Technologies (IT) Software solutions and services, Consulting & Management in Israel.	2,855,747	2,435,375	2,361,005
Information Technologies (IT) Software solutions and services in USA.	478,380	434,273	355,923
Software product marketing and support	294,236	249,855	258,050
Cloud infrastructure and computer solutions	1,430,913	1,345,573	1,210,301
Training and implementation	172,829	207,613	174,869
	5,232,105	**4,672,689**	**4,360,148**

b. Cost of sales and services

Purchases	1,308,980	1,105,177	1,098,180
Wages and related expenses	2,410,043	2,263,798	2,021,049
Subcontractors	523,870	451,850	395,920
Depreciation and amortization	128,431	102,431	74,364
Motor vehicles	50,186	49,435	46,356
Maintenance and other expenses	74,178	75,053	*78,880
	4,495,688	4,047,744	3,714,749
Decrease (increase) in inventories	(27,763)	(47,062)	14,996
	4,467,925	**4,000,682**	**3,729,745**

c. Selling and marketing expenses

Wages and related expenses	124,775	101,895	83,961
Amortization	26,720	20,617	21,452
Advertising and marketing	22,680	26,875	24,931
Subcontractors	6,725	7,042	11,111
Other expenses	8,798	9,817	6,100
	189,698	**166,246**	**147,555**

d. General and administrative expenses

Wages and related expenses	109,588	90,545	84,667
Depreciation and amortization	48,468	39,177	51,921
Doubtful accounts and bad debts	4,135	3,329	1,376
Capital (gain) from sale of property, plant and equipment	322	197	78
Other expenses	19,194	22,419	15,570
	181,063	**155,273**	**153,456**

* Reclassified

NOTE 21:- ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE INCOME ITEMS (Cont.)

e. Financial income and expenses (In Thousand NIS)

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Financial expenses:			
Expenses in respect of business combination and Put options revaluation	11,965	12,987	14,127
Capitalization financial expenses IFRS16 and actuarial costs	15,335	6,566	5,086
Commissions, interest, differences and interest expenses on short and long-term loans	54,035	31,248	23,069
Foreign Exchange differences, net	1,403	-	3,276
	82,738	**50,801**	**45,558**
Financial income:			
Income from deposits	14,505	2,272	360
Foreign Exchange differences, net	-	2,748	-
	14,505	**5,020**	**360**

NOTE 22:- NET EARNINGS PER SHARE - NIS in Thousands

Details of the net income and par value of shares used in the calculation of net earnings per Ordinary share of NIS 1 par value and the adjustments made for the calculation of basic and fully diluted net earnings per share:

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Basic net earnings per share:			
Net income attributable to equity holders of the Group	227,333	334,669	195,341
Weighted number of shares	63,477,904	62,878,758	62,497,759
Basic net earnings per share	3.58	5.32	3.13
Diluted net earnings per share:			
Net income attributable to equity holders of the Group	227,333	334,669	195,341
Weighted number of shares used to calculate basic net earnings per share	63,477,904	62,878,758	62,497,759
Effect of potential dilutive Ordinary shares	44,172	282,431	633,258
Adjusted weighted average number of shares	63,522,076	63,131,189	63,131,017
Diluted net earnings per share	3.58	5.30	3.09

NOTE 23:- INTERESTED AND RELATED PARTIES

a. **Balances:**

December 31, 2023 (In Thousand NIS):

	See Note	Related parties
Trade receivables	5	5,052
Trade and other payables	11-12	-

December 31, 2022 (In Thousand NIS):

	See Note	Related parties
Trade receivables	5	6,821
Trade and other payables	11-12	5

NOTE 23:- INTERESTED AND RELATED PARTIES (CONT.)

b. Benefits to key management personnel

1. Compensation to key management personnel * (In Thousand NIS):

	Year ended December 31, 2023		Year ended December 31, 2022		Year ended December 31, 2021	
	No. of key managers	NIS in thousands	No. of key managers	NIS in thousands	No. of key managers	NIS in thousands
Share-based payment (1)	18	6,339	20	841	20	1,964

(1) See also note 18.

* Without company`s CEO. For details of salary to company`s CEO see 2 bellow.

2. Salaries and benefits to interested parties:

	Year ended December 31, 2023		Year ended December 31, 2022		Year ended December 31, 2021	
	No. of people	NIS in thousands	No. of people	NIS in thousands	No. of people	NIS in thousands
Salaries and related expenses paid to executives	1	21,384	1	17,036	1	10,959
Salaries and related expenses paid to interested parties	1	98	1	114	1	119
Public directors' fees	3	451	3	520	3	488

NOTE 23:- INTERESTED AND RELATED PARTIES (CONT.)

c. **Transactions with interested and related parties**

Year ended December 31, 2023 (In Thousand NIS):

	Interested Parties	Related parties and Parent Company
Training services	767	59
Cloud computing services	104	11,646
Software testing and QA	1,874	2,164
Software products	11,461	1,643
Computer infrastructure and integration	-	9,265
Rent	-	52
Call center services	-	-
Purchase of software development services	14,308	996
Purchase of maintenance of software products services	-	17
Purchase of management services	-	-

Year ended December 31, 2022(In thousand NIS):

	Interested parties	Related parties and Parent Company
Training services	898	345
Cloud computing services	76	8,856
Software testing and QA	23,252	3,532
Software products	3,825	1,661
Computer infrastructure and integration	-	6,689
Rent	-	28
Call center services	-	-
Purchase of software development services	3,511	(4,037)
Purchase of maintenance of software products services	-	(22)
Purchase of management services	-	(32)

Year ended December 31, 2021 (In thousand NIS):

	Interested parties	Related parties and Parent Company
Training services	342	182
Cloud computing services	-	9,043
Software testing and QA	14,205	7,611
Software products	2,021	1,913
Computer infrastructure and integration	10	2,156
Rent	-	-
Call center services	-	-
Purchase of software development services	-	(2,053)
Purchase of maintenance of software products services	-	-

NOTE 24:- OPERATING SEGMENTS

a. General

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

The Company operates through subsidiaries in the following segments:

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

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, 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.

NOTE 24:- 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.

NOTE 24:- OPERATING SEGMENTS (CONT.)

b. Geographic Information - NIS in Thousands

Revenues reported in the financial statements derived from the Company's country of domicile (Israel) and foreign countries based on the location of the customers are as follows:

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Israel	4,647,634	4,171,903	3,954,192
Abroad	584,471	500,786	405,956
	5,232,105	4,672,689	4,360,148

The carrying amounts of fixed assets (property, plant and equipment, and intangible assets) in the Company's country of domicile (Israel) and in foreign countries based on the location of the assets, are as follows:

	Year ended December 31, 2023	Year ended December 31, 2022
Israel	1,038,929	990,633
Abroad	287,596	285,648
	1,326,525	1,276,281

NOTE 24:- OPERATING SEGMENTS (CONT.) - NIS In Thousands

c. Reporting on operating segments

Year ended December 31, 2023

	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	2,855,747	172,829	294,236	1,430,913	478,380	-	5,232,105
Inter-segment revenues	90,447	5,008	35,491	83,106	8,809	(222,861)	-
Revenues	2,946,194	177,837	329,727	1,514,019	487,189	(222,861)	5,232,105
Depreciation and amortization	134,341	5,318	6,553	52,491	4,916	-	203,619
Segment operating results	198,785,	11,572	36,123	87,957	76,168	(17,186)	393,419
Financial expenses							(82,738)
Financial income							14,505
Taxes on income							(78,331)
Net income							246,855

NOTE 24:- OPERATING SEGMENTS (CONT.) - NIS in thousands

c. Reporting on operating segments (Cont.)

Year ended December 31, 2022

	IT Software solutions and services, Consulting & Management in Israel	Training and implementation	Software product marketing and support	Cloud infrastructure and computer solutions	IT Software solutions and services, in US	Adjustments	Total
Revenues from external customers	2,435,375	207,613	249,855	1,345,573	434,273	-	4,672,689
Inter-segment revenues	73,102	4,345	21,174	81,843	628	(181,092)	-
Revenues	2,508,477	211,958	271,029	1,427,416	434,901	(181,092)	4,672,689
Depreciation and amortization	121,975	6,489	3,531	25,573	4,657	-	162,225
Segment operating results	180,359	24,883	24,200	76,607	60,228	(15,789)	350,448
Gain on realization of Subsidiary							150,059
Financial expenses							(50,801)
Financial income							5,020
Taxes on income							(100,285)
Net income							354,481

NOTE 24:- OPERATING SEGMENTS (CONT.)

c. Reporting on operating segments (Cont.)

Year ended December 31, 2021

	IT Software solutions and services, Consulting & Management in Israel	Training and implementation	Software product marketing and support	Cloud infrastructure and computer solutions	IT Software solutions and services, in US	Adjustments	Total
Revenues from external customers	2,361,005	174,869	258,050	1,210,301	355,923	-	4,360,148
Inter-segment revenues	73,293	15,034	13,237	27,839	1,158	(130,561)	-
Revenues	2,434, 298	189,903	271,287	1,238,140	357,081	(130,561)	4,360,148
Depreciation and amortization	94,258	11,631	2,922	30,863	8,063	-	147,737
Segment operating results	186,776	17,870	25,316	61,727	41,144	(3,441)	329,392
Financial expenses							(45,198)
Taxes on income							(65,446)
Net income							218,748